

Briefing Paper

State Retail Rate Regulation of Local Exchange Providers as of September 2005

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EXECUTIVE SUMMARY

The year 2005 saw significant changes in the retail rate regulation of local exchange carriers (LECs) in the United States. Between October 2004 and September 2005, the period covered in this briefing paper, fourteen states adopted new state laws affecting the regulatory regimes of their local carriers; thirteen states reviewed or adopted new rate plans for one or more of their incumbents and 22 states deregulated services, particularly those provided in competitive urban areas or designated as competitive.

As in previous years, the majority of states (40) use some form of price cap regime to regulate their incumbent local exchange carriers (ILECs), with seven states using it for all their ILECs. Only five states still use rate of return (ROR) to regulate all their incumbents; increasingly states apply a mix of regimes to regulate their carriers, combining price cap regulation with ROR, rate flexibility or deregulation, especially for their smaller incumbents. Meanwhile, larger incumbents have obtained greater flexibility and rate deregulation for an increased number of services. Many states have already deregulated bundled and competitive services. Complete deregulation has so far been implemented in only three states, all within the Qwest region, but it can be expected that the trend to deregulate the rates for basic services will continue. As for the competitive local exchange carriers (CLECs), they are flexibly regulated in 27 states and their rates are not reviewed in 21 more. The remaining three states (Delaware, New Jersey, and Virginia) regulate some of the CLECs rates.

This report includes several tables that provide different levels of detail about the regulatory regimes of local exchange carriers in the United States, both incumbent and competitive. For a fast summary, refer to Table 6 at the end of the report or to the different figures, illustrating the status of rate regulation in the different states. Table 2 and Figure 4 show the changes in regulation that occurred during the period covered in this report.

Contents

Introduction	2	Detail of State Retail Rate Regulation of CLECs	43
State Retail Rate Regulation of LECs	10	States with Companies Under Regimes Different from Price Caps	50
Changes in State Retail Rate Regulation of ILECs	18	Distribution of States by Type of Retail Rate Regulatory Regime	52
Detail of State Retail Rate Regulation Plans of ILECs	24		

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INTRODUCTION

This briefing paper shows the status of retail rate regulation of local exchange carriers in the United States as of September 2005. The information included was obtained from the Supplemental White Papers on Retail Rate Regulation of Local Exchange Providers, published each year by *State Telephone Regulation Report*, and from staff members of 19 states, who reviewed the information and provided revisions.

Following the trend of previous years, incumbent local exchange carriers (ILECs) continue transitioning from rate-of-return regulation (ROR) to alternative forms of regulation, including price caps, flexible regulation and particularly towards deregulation of competitive and non-basic services. Among the different regulatory regimes, price cap regulation is the most commonly adopted by the states to regulate the rates of their ILECs, particularly of the larger ones, as illustrated in Table 6 and Figure 1.

Price Cap Regulation

The summary information provided in Table 6 indicates that a total of 40 states use some form of price cap regulation. Of them, only seven states (Alabama, Delaware, District of Columbia, Louisiana, Pennsylvania, Rhode Island, and Texas) apply it to all their ILECs, including the Regional Bell Operating Companies (RBOCs) and other smaller incumbent operators. The most common trend among these 40 states is to regulate the rates of the large incumbents under a price cap plan while maintaining smaller incumbents under ROR regulation (19 states).¹

In many states, smaller incumbents were given the option to transition from traditional ROR regulation to price caps or some other form of alternative regulation. As a result, in some states smaller operators are under a mix of regimes, while the large incumbents remain under price cap regulation.

Although many smaller operators decided to remain under ROR, some have opted for different forms of alternative regulation, ranging from streamlined ROR with some pricing flexibility (Wisconsin) to pricing flexibility (Indiana), and from a mix of rate freeze and deregulation (Michigan) to price cap regimes or price-based regulation (North Carolina, Ohio, South Carolina, and Wisconsin).

Other states have granted rate deregulation to their smaller incumbents and cooperatives, while keeping larger incumbents under price cap regulation. Iowa, New Mexico, and Virginia, for instance, have deregulated rates for all their smaller incumbents; meanwhile Indiana, and Wyoming have done so for all their cooperatives. North Dakota and Oregon have deregulated the retail rates of smaller incumbents, but still regulate those of Qwest (price caps) and other larger incumbents (ROR).² Other states (Arkansas, Minnesota, New York, and West Virginia) also apply different regulatory regimes to their incumbent local exchange carriers, combining price caps with ROR, price flexibility and deregulation. As of September 2005 eight states were using a combination of regimes to regulate their ILECs, as shown in Table 6.

Traditional Regulation

Despite the prevalence of price caps, traditional rate of return regulation (ROR) is still in use in 36 states, mostly to regulate smaller incumbents, as

¹ Idaho is not included within this group because it regulates Qwest, its largest ILEC, under a hybrid regime that combines price caps and deregulation. Other incumbents are under ROR.

² North Dakota deregulated the retail rates of investor-owned companies with less than 8,000 lines and of all its cooperatives.

illustrated in Figure 2. The number of states that use ROR for all their ILECs has decreased over time; as of September 2005, only Alaska, Hawaii, Montana, New Hampshire, and Washington did so. Arizona is a special case within this group, as it regulates Qwest under a hybrid plan that combines ROR with price caps, while keeping the other incumbents under traditional ROR.

Deregulation

Finally, complete retail rate deregulation has so far made inroads only within the Qwest region. While the Great Plains states of Nebraska and South Dakota have deregulated all their retail services, Wyoming has adopted a cost-based pricing flexibility regime for all its ILECs. The deregulatory trend, however, has gained force since our 2004 report.³ As shown in Figure 4, from October 2004 to September 2005, 22 states approved rate deregulation for one or more retail services provided by their local exchange carriers since October 2004. As of the end of our reporting period, California was reviewing the price cap plans of its four incumbents (SBC, Verizon, Surewest Telecom, and Citizens Telecom/Frontier) aiming to eliminate retail rate regulation except for basic exchange services. Kansas has allowed SBC to petition for deregulation of competitive services in competitive markets, while New Hampshire and Texas have given all of their ILECs the option to deregulate services where competition is deemed to exist.

Recent Developments: ILEC Regulation

Table 2 presents the major changes in retail rate regulation of local exchange carriers that occurred between October 2004 and September 2005. During these months 14 states, shown in Figure 4, passed new laws that modified the rate regulation of either their RBOCs (Idaho, Iowa, North Dakota, and Utah), the largest incumbents

(New Mexico, South Carolina, and Tennessee), other incumbents (Vermont) or all the incumbents in the state (Alabama, Michigan, Missouri, New Hampshire, Pennsylvania, and Texas). In six of these states the new laws allowed for further deregulation of services. In Missouri for example, the 2005 law deregulated the rates of bundled and stand-alone services in exchanges with two or more competitors. Similarly, South Carolina deregulated service bundles of price-regulated ILECs and Tennessee did so for bundled services and customer-specific service contracts offered by BellSouth, Sprint, and Citizens Telecom. Iowa and Utah deregulated all the retail rates of Qwest, with the exception of basic residential services, while Texas, as mentioned above, gave its ILECs the option to deregulate retail rates based on population size and the existence of competition.⁴

It must be underscored that the definition of competition is not uniform among states. Texas, for instance, defined it as the presence of two landline operators and one wireless provider in the same area as the incumbent; Alaska, on the other hand, deems competitive any market where local service is provided by an ILEC and another facilities-based wireline carrier. Iowa allows Qwest full rate deregulation in any market where competitive alternatives exist (as of March 2006, 40 communities had been deregulated), while Missouri does so for smaller incumbents with two or more local competitors operating in an exchange. New Hampshire even considers the presence of IP-based service providers as part of the proof of competition that incumbents, other than Verizon, can provide to opt for regulation similar to that of the CLECs. One of the most interesting changes in this regard occurred in Pennsylvania, where a December 2004 state law allowed ILECs to self-certify that a service is competitive.

³ See <http://www.nrri.ohio-state.edu/dspace/bitstream/2068/261/1/04-13.pdf>

⁴ As of February 2006, the 2005 Texan law was being challenged and the Public Utility Commission had refused to reconsider its decision to deregulate retail rates in mid-size markets.

Increasingly, urban centers are being considered competitive. In Michigan, for instance, the Commission approved in August 2005 the rate deregulation of retail services offered by all telecom providers in the state's 30 largest cities, effective in October 2005.⁵ Texas' state law gives ILECs the option to deregulate retail rates in cities over 100,000 inhabitants, effective January 2006, and Arkansas has authorized SBC to deregulate basic exchange rates in its competitive urban markets.

Deregulation has also taken place as a result of changes in alternative forms of regulation (AFOR) plans. Thirteen states, shown in Figure 4, reviewed or adopted new plans for their ILECs during the 2004-2005 period in response to the approaching expiration date of the existing plans. For the most part, the new plans introduced changes that permitted rate increases for basic local service, as well as for some vertical and non-basic services, either by lifting freeze rate regimes, indexing caps, or moving services out of non-indexed caps. Retail service bundles, many business and competitive services, on the other hand, tended to be deregulated.

North Carolina is a case in point. The new price cap plans approved for BellSouth, Verizon and Sprint in 2005 allowed basic services to rise from 10 (BellSouth, Verizon) to 12 percent (Sprint) subject to a basic basket revenue cap specific to each company. Vertical and non-basic services are allowed to rise up to 20 percent, subject to a basket revenue cap, and competitive services were rate deregulated. Similarly, in 2004 Indiana adopted new plans for SBC, Verizon, and Sprint that will deregulate all service bundles considered competitive and retail services, with the exception of basic residential, small business and vertical services, following the end of the plan in 2007.

Nine of the fifteen states that approved rate changes during this period (Florida, Illinois, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Nebraska, New Mexico, North Carolina, North Dakota, Oklahoma, Vermont, Virginia, and West Virginia) authorized modifications in regulation that may result in rate increases for their ILECs' local services. Other six states reviewed existing plans during this period, but decided to extend them unchanged (Connecticut, Delaware, and Minnesota) or with changes that allowed rate increases in local service (District of Columbia), non-basic (Arizona) or vertical services (West Virginia). The shift towards rate deregulation of basic services in the near future is to be expected. Idaho's new state law already includes provisions to deregulate the rates for basic exchange services for Qwest after the current caps expire, either in 2008 or 2010 if the current plan is extended by the PUC.

Other changes worth mentioning during the October 2004 – September 2005 period include the sale of Verizon Hawaii to the Carlyle group in May 2005 that resulted in the reorganization of the company, which was renamed Hawaiian Telcom, as well as two pending cases for Qwest in Montana and New Mexico, the first for overearnings and the second for unfulfilled investment commitments.

Recent Developments: CLEC Regulation

With respect to the competitive local exchange carriers (CLECs), the prevalent regulatory trend is rate flexibility (27 states), closely followed by rate deregulation (21 states), as illustrated in Table 6 and Figure 3. State regulatory commissions have granted CLECs rate flexibility based on the general assumption that their retail rates are competitive.⁶ In some states this assumption is limited by either imposing exceptions for specific services (Colorado, Missouri, New Jersey, and Vermont), setting specific floors (Delaware),

⁵ The order has been appealed to state courts.

⁶ Montana has gone a step beyond by not making any determination of market competitiveness.

limiting the assumption to initial rates (Michigan) or requiring CLECs to set rates at or below those of the incumbent (Pennsylvania and Virginia).

State certification of CLECs is required in 45 states and the District of Columbia. As part of this requirement, CLECs must demonstrate their technical, financial and managerial competence before beginning operations. Only Kentucky, Massachusetts, Montana, and Washington allow CLECs to operate by simply registering with the public commission or another appropriate authority; North Dakota requires certification only to facilities-based CLECs. As for the requirements to file tariffs and notify rate and service changes, Montana, Nevada, North Carolina, and Oregon provide their CLECs the greatest flexibility, even when compared to states that do not review CLECs' rates. Competitive carriers in these four states are not required to file tariffs or provide notification of changes and the rate changes are not normally reviewed by their respective state commission. Table 4 provides greater detail on the state commission requirements on CLECs regarding certification, rate filings, rate changes, reviews and notifications.

Summary

In sum, the trend among states is towards providing greater price flexibility to incumbent carriers as the level of competition in local exchange services increases in their states. This flexibility is expressed either by deregulating certain services, such as bundled and competitive services, certain carriers based on their size, such as telephone cooperatives and other smaller incumbents, or even certain urban centers, based on their population size. Some larger incumbents are also making inroads in achieving full retail rate deregulation in competitive zones and in a few states. As for CLECs, rate flexibility is the prevailing trend. It is expected that the deregulatory trend will continue in the coming years and expand to basic services.

The tables included in this report provide different levels of detail. Table 1 provides basic information on the specific type of plan applied to large incumbents, other incumbents and CLECs. Table 2 summarizes major changes in rate regulation that occurred from October of 2004 to September 2005. Figure 4 illustrates some of these changes, indicating those states that passed new state laws, new regulatory plans or that deregulated services during this period. Tables 3 and 4 provide detailed information on the regulation plans of ILECs and CLECs, respectively, including earnings regulation, notice periods, as well as requirements on infrastructure investment and quality of service. Table 5 lists the states using regulatory regimes different from price caps. Figure 2 indicates the states with ILECs under rate of return regulation. Finally Table 6 summarizes the previous information by classifying states by the type of rate regulation regime applied to their ILECs and CLECs. Figures 1 and 3 illustrate this information.

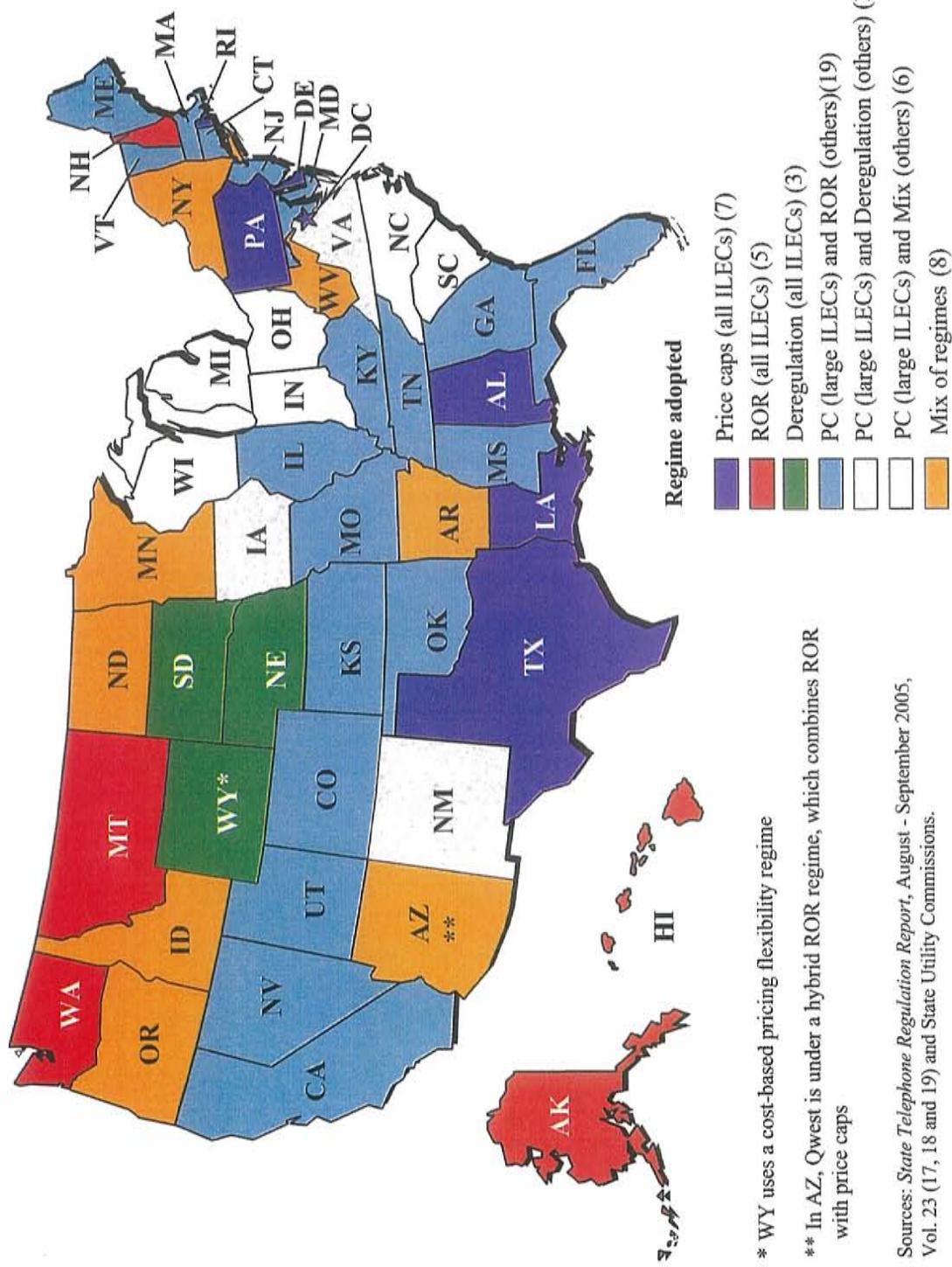


Fig. 1. Retail rate regulation of incumbent local exchange carriers (as of September 2005).

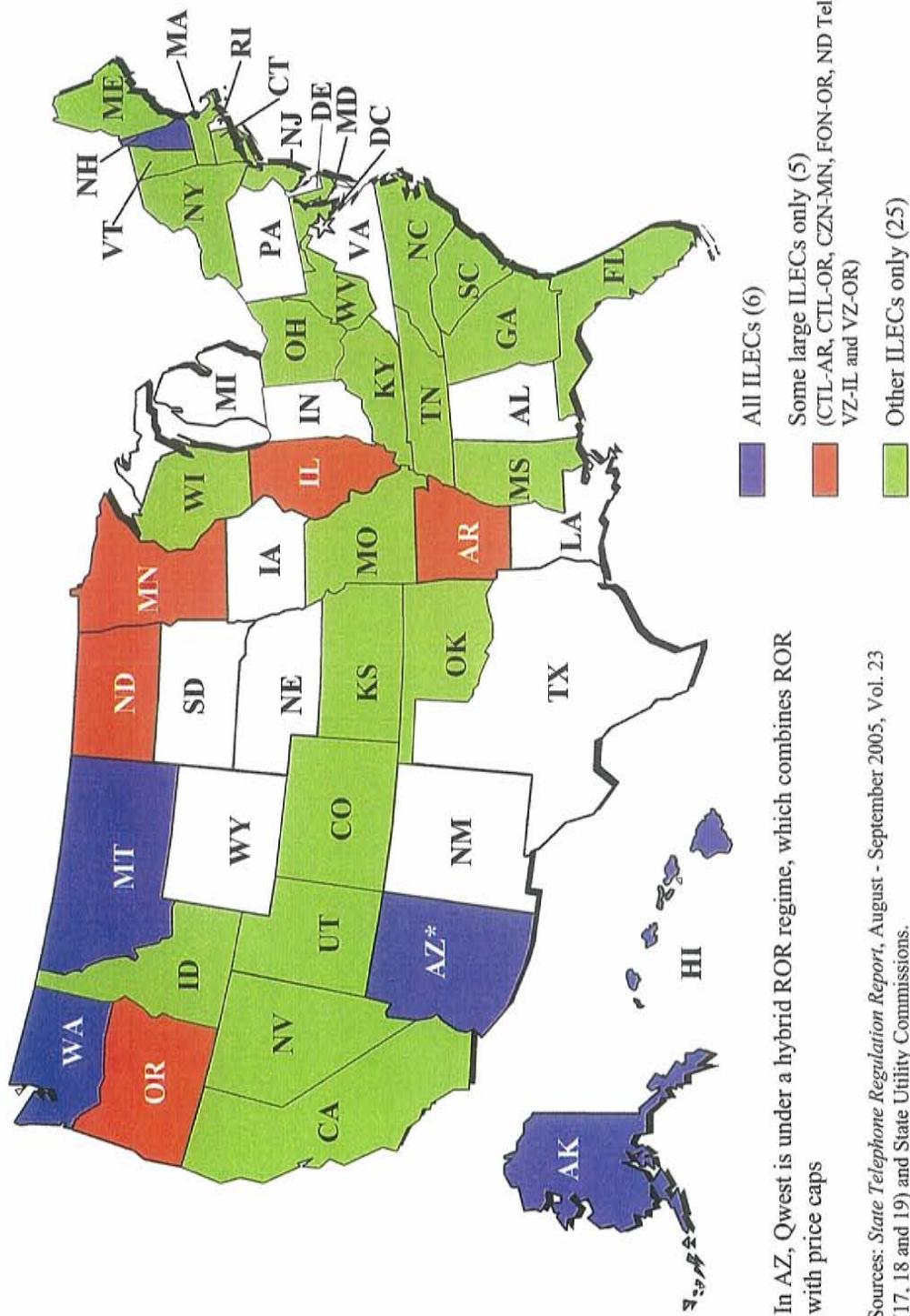


Fig. 2. States with incumbent local exchange carriers under rate-of-return regulation (as of September 2005).

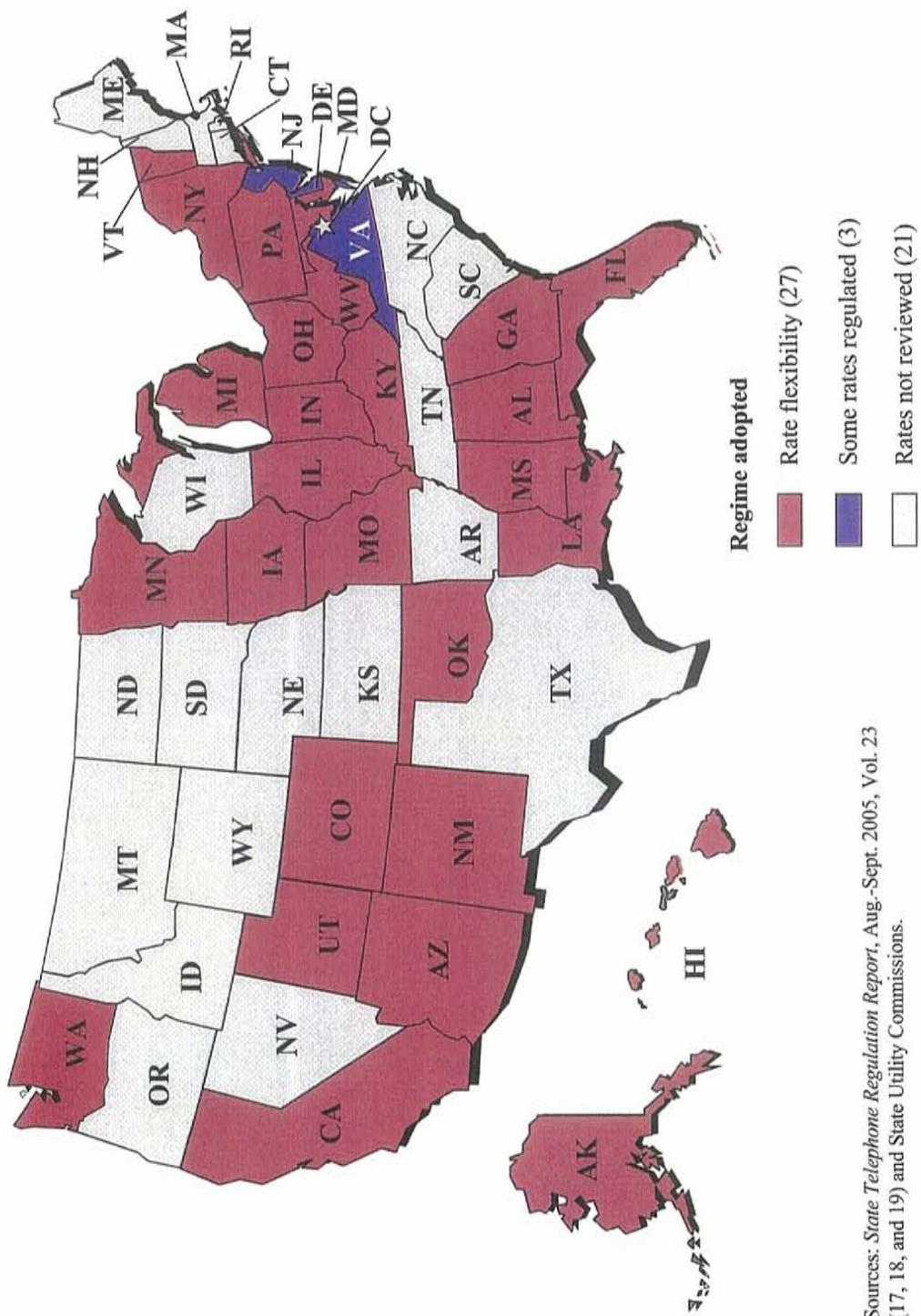
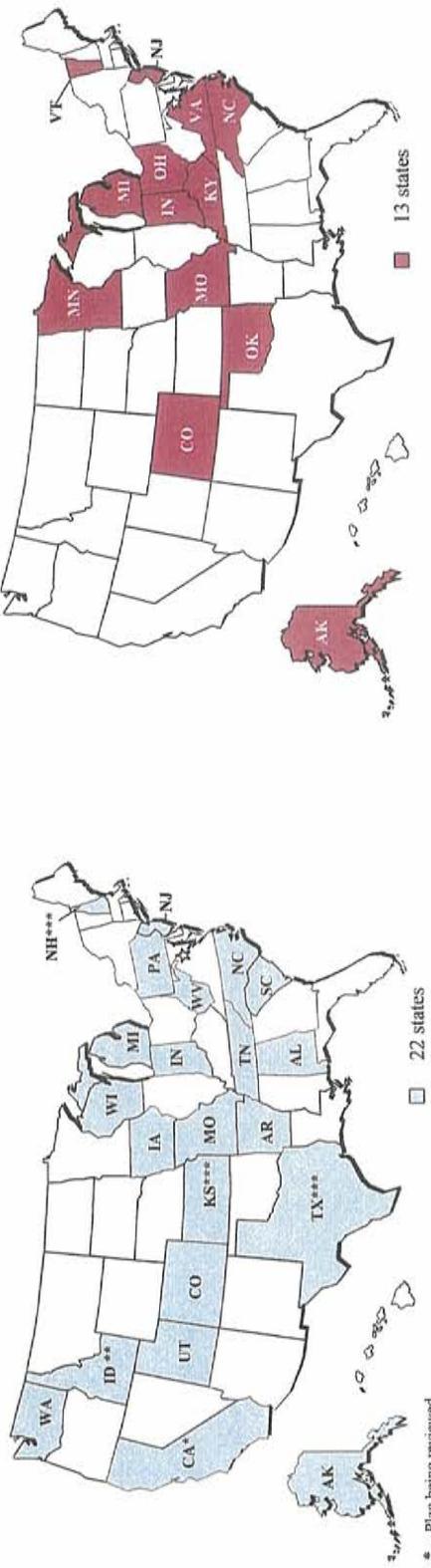


Fig. 3. Retail rate regulation of competitive local exchange carriers (as of September 2005).

Retail Rate Deregulation of Service(s) Provided by One or More LECs

Adoption of New Retail Rate Regulation Plans for One or More LECs



* Plan being reviewed
** After current caps expire
*** Option if competition exists or based on population size

Adoption of New State Laws Affecting Retail Rate Regulation



Fig. 4. Major changes in state retail rate regulation of Local Exchange Companies (October 2004 – September 2005).

TABLE 1
STATE RETAIL RATE REGULATION OF LOCAL EXCHANGE COMPANIES
(AS OF SEPTEMBER 2005)

State	Large Incumbents	Other Incumbents	CLECs
AL	All: <u>Price caps (1996).</u> Nonindexed price caps for basic exchange and access rates. Other services can rise up to 10 percent per year, in aggregate, with rate design subject to PSC review.	Small (<u>under \$500,000 annual revenues</u>): Streamlined ROR (1992). Rate boosts up to 6 percent and any permanent rate cuts decided in as few as 45 days under ROR principles in annual filings. Other changes require full rate case. In markets designated competitive (Anchorage, Fairbanks and Juneau or where a facilities-based wireline local service provider competes with incumbent), incumbents can cut rates on 30 days' notice without prior state approval but any increase back to previous level may be subject to rate review. They can also set limited-duration promotional rates to match competition without prior state approval.	<u>Rates regulated flexibly.</u> State certificate requirement. Need to demonstrate technical, financial and managerial competence. Must file tariffs and give notice of rate changes. Tariff changes get regulatory staff review but normally aren't questioned. <u>Rates regulated flexibly.</u>
AK		Smallest rural incumbents (<u>under \$50,000 annual revenue</u>): Deregulated (1992).	
AZ	Qwest: <u>ROR with price caps (earnings-based regulation pegged to ROR on "fair value" of rate base).</u> Price cap system has local rates frozen and other noncompetitive services can rise up to 25 percent per year. Competitive services <u>flexibly priced</u> , but subject to revenue cap for entire basket of competitive services.	ROR (earnings-based regulation pegged to ROR on "fair value" of rate base). No price flexibility.	<u>Rates regulated flexibly.</u> Major rate changes may be subject to hearings. State constitution mandates relationship between CLEC rates and "fair value" of their rate base. "Fair value" issues solved in case-by-case basis.
AR	SBC, AT&T: <u>Price caps (1997).</u> Indexed price caps for basic exchange and switched access (75 percent of GDP-PI). Rates for all other services deregulated. Century Tel: <u>ROR</u> in access lines bought from Verizon in 2000.	Price caps (1997) that permits basic exchange services to rise annually by lesser of 15 percent or \$2 per line monthly. All other service rates deregulated.	<u>Rates not reviewed.</u> CLECs must contribute to state universal service fund regardless whether they are eligible to receive subsidies from fund or not. <u>Rates regulated flexibly.</u>
CA	SBC, Verizon, Surewest Telecom, Citizens/Frontier: <u>Price caps (1990).</u> Competitive services <u>flexibly priced</u> . Rate freeze for noncompetitive services, except for cost-justified changes.	ROR. Can elect earning-based or price-based alternative regulation systems, but none has chosen to do so.	<u>Rates regulated flexibly.</u> Residential basic exchange rate can't exceed \$14.74 statewide cap set by state law for all providers.
CO	Qwest: <u>Price caps (2005).</u> Nonindexed price caps for basic exchange on first residential line and first 5 business lines. Statewide deregulation of interexchange service rates; rates for business services to customers over 5 lines and optional or discretionary services deregulated in state's 5 largest cities and in any other market where sufficient competition can be demonstrated.	ROR. No pending proceedings to change status. Verizon in 2003 proposed a change to price caps, but later withdrew application.	<u>Rates not reviewed.</u>
CT	SBC (Southern New England Telephone): <u>Price caps (1996-2006).</u> Indexed price caps (GDP-PI) for noncompetitive services. Caps levels don't change unless GDP-PI exceeds 5 percent per year; when caps can rise by half the amount over 5 percent. Competitive services <u>flexibly priced</u> . X: Factor = 5 percent.		<u>Cost-based rate floor.</u> Rates presumed competitive as long as they stay above floor set at incremental cost. If rate changes are above cost floor they normally get no further review.
DE	Verizon: <u>Price caps (1994-2011).</u> Indexed price caps (GNP-PI - 3 percent productivity-gain offset) for basic services. Competitive services <u>flexibly priced</u> . In June 2005, PSC concluded review of plan by extending it unchanged until September 2011.	No other incumbents	

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 1
STATE RETAIL RATE REGULATION OF LOCAL EXCHANGE COMPANIES
(AS OF SEPTEMBER 2005) - *Continued*

State	Large Incumbents	Other Incumbents	CLECs
DC	Verizon: <u>Price caps (2006)</u> . Rate freeze on residential dial tone until Dec. 31, 2005. Thereafter, VZ has the option of increasing the dial tone rate by 32¢. Rate would remain in effect for duration of plan. Other basic residential and business rates may be increased by up to 10 percent each year, but percentage revenue can't exceed annual inflation rate. Discretionary service rates can rise up to 15 percent annually. Competitive services not rate regulated, but must be priced above incremental cost.	No other incumbents	<u>Rates not reviewed.</u>
FL	BellSouth, Verizon, Sprint: <u>Price caps (1995 statute)</u> . Indexed price caps (GDP-PI - 1 percent) for basic services. Rates for nonbasic services categories can be increased up to 6 percent per year in noncompetitive markets and up to 20 percent a year in competitive markets. A 2003 state law permitted major rate rebalancing to shift hundreds of millions of dollars from access charges onto local rates and allowed basic services to be regulated like others after two years (three years for Sprint). PSC (Dec. 2003) approved plan to give the three companies \$355 million in local rate increases. Increases were stayed by the FL Supreme Court and finally upheld in June 2005. The three carriers filed tariffs in Sept. 2005 for increases in basic services and decreases in intrastate access charges effective Nov. 2005. BellSouth: <u>Price caps (1995)</u> . Indexed price caps (GDP-PI), for basic rates. Access charges capped at interstate rate. All other service rates deregulated.	Price caps (1995). Can elect price cap regulation under program similar to large telcos. Six other incumbents have chosen price caps, only one small incumbent under ROR.	<u>Rates regulated flexibly.</u>
GA	Hawaiian Telcom (formerly Verizon): <u>ROR</u> . State law requires cost-based and earnings-based regulation until PUC determines effective local competition exists.	No other incumbents	<u>Rates regulated flexibly.</u>
ID	Qwest: <u>Nonindexed price caps</u> in basic local exchange under five lines. Annual rate increases limited to 10 percent. Service deregulation (1998) for all other retail services except basic local exchange provided to accounts with fewer than five lines.	ROR. Can elect regulatory plan similar to Qwest; none has chosen to do so.	<u>Rates not reviewed.</u>
IL	SBC: <u>Price caps (1995)</u> . Residential rates and other noncompetitive services under caps indexed to GDP-PI minus 3 percent. Competitive services flexibly priced.	ROR	<u>Rates regulated flexibly.</u>
IN	Verizon: <u>Price caps</u> . Basic local services under nonindexed price caps. Company can impose single 25¢ increase for vertical services in 2006. All other retail services and service bundles are considered competitive and have been rate deregulated. Price floor must exceed total TSLRIC of the service plus 10 percent of shared and common costs.	Investor-owned incumbents with fewer than 30,000 lines: <u>Pricing flexibility</u> , but earnings still may be reviewed.	<u>Rates regulated flexibly.</u>
Sprint	SBC: <u>Price caps</u> . Basic residential and business services under five lines under nonindexed price caps. Vertical services to increase up to 38 cents per feature yearly. All other retail services and service bundles are considered competitive and have been deregulated. Price floor must exceed total TSLRIC of the service plus 10 percent of shared and common costs.	Vertical serv. can have cumulative, annual increases limited to 8.75 percent, of annual revenues for serv. in this basket. Rates for all other retail serv. and bundles deregulated. Price floors of TSLRIC plus 10 percent apply.	<u>Rates regulated flexibly.</u>

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 1
STATE RETAIL RATE REGULATION OF LOCAL EXCHANGE COMPANIES
(AS OF SEPTEMBER 2005) - Continued

State	Large Incumbents	Other Incumbents	CLECs
IA	Qwest, Iowa Telecom Services, Frontier Communications of Iowa: <i>Price caps (1995). Nonindexed price caps for single-line basic exchange under caps. Rates can rise by \$1 per year residential or \$2 per year business up to a statewide cap of \$19 monthly for residential service and \$38 for business service. Other retail service rates are deregulated. Full rate deregulation allowed in any market where competitive alternatives exist.</i>	<i>Rates not reviewed. Rates and earnings deregulated since 1983. Companies must keep current tariffs on file and give notice of changes. Changes to other terms and conditions of service receive regulatory staff review and may be questioned.</i>	<i>Rates regulated flexibly. CLEC local calling areas are supposed to coincide with incumbents but CLECs can petition for waiver.</i>
KS	SBC, Sprint: <i>Price caps (1998). Indexed price caps (GDP-PI-X-Factor of 3.15 percent on basic local for res. and S-L bus; 1.5 percent on multiline bus, vertical, and other retail).</i> Starting in 2002, companies can petition for rate deregulation of competitive services in markets where competitors operate. SBC won deregulation of Centrex, Speed Calling, operator services and directory ass't. In 2002, In June 2005 SBC was granted rate deregulation for selected services in Kansas City, Wichita and Topeka. The 2006 Legislature has sent SB 350 to conference committee. If passed it would expand deregulation, especially in metropolitan areas.	<i>ROR</i>	<i>Rates not reviewed.</i>
KY	BellSouth: <i>Price caps (1995-2009). Basic rates under caps. Access capped at interstate levels. Competitive services deregulated.</i>	<i>ROR. 17 other incumbents have option to propose price caps or other alternatives to ROR, but only Alltel is under alternative regulation.</i>	<i>Rates regulated flexibly.</i>
LA	Cincinnati Bell: <i>Price caps (2004). Rate freeze for basic services; rates frozen for some vertical services and specialty business services through 2006, then can increase up to cap set at double initial rate. Competitive services flexibly priced.</i>	<i>Kentucky Alltel: ROR.</i>	
ME	Alltel KY: <i>Price cap for basic services; pricing flexibility for other services.</i>		
MD	BellSouth: <i>Price caps (1996). Nonindexed price caps for basic and access and single-line business basic services, except for rate changes intended to consolidate eight local rate groups into one by 2006. After 2006, BellSouth may raise basic service rates up to 10 percent a year in urban markets with competition. Competitive services deregulated.</i>	<i>Price caps (1997). Nonindexed price caps for basic and access services. Competitive services flexibly priced.</i>	<i>Rate regulated flexibly.</i>
MA	Verizon: <i>Price caps (1995-2006). Basic residential and business service rates frozen; nonbasic and competitive services flexibly priced, except for operator services and directory assistance, which are capped at May 2002 levels. Verizon's plan allows petition for basic service increases due to exogenous cost factors and to petition for deregulation of basic business rates to customers over 10 lines in markets where meaningful competition exists.</i>	<i>ROR. Petitions for price-based regulation from Pine Tree Telephone and Saco River Telephone, both Country Road Communications affiliates. First phase of PUC docket will address whether to consider alternative regulation; the second, specific plans.</i>	<i>Rates not reviewed.</i>
	Verizon: <i>Price caps (1996, Revised 2005). Basic services capped at current levels until Nov. 23, 2007, then permitted to escalate at the rate of inflation as measured by GDP-PI. Competitive services rate deregulated.</i>	<i>ROR</i>	<i>Rates regulated flexibly.</i>
	Verizon: <i>Price caps (2003). Basic residential local service and analog private lines under nonindexed caps. All other retail services under pricing flexibility. Rates can move anywhere above wholesale floor.</i>	<i>ROR</i>	<i>Rates not reviewed.</i>

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 1
STATE RETAIL RATE REGULATION OF LOCAL EXCHANGE COMPANIES
(AS OF SEPTEMBER 2005) • Continued

State	Large Incumbents	Other Incumbents	CLECs
MI	SBC & Verizon: Price caps (1995). Indexed price caps for noncompetitive services (Detroit-area CPI - 1 percent for SBC and VZ); rate cuts presumed competitive and not reviewed. Competitive services deregulated. State law in 2000 amended cap program to freeze noncompetitive retail rates of SBC and Verizon through 2003 except those in customer-specific contracts, and to abolish state subscriber line charges. Telcos challenged law on constitutional grounds in federal court and won stay of freeze and SLC provisions. They withdrew litigation in Feb. 2003 following settlement agreement with state in Dec. 2002 that waived rate freeze and allowed continued billing of state SLC at reduced rate.	<i>Rate freeze for local services; deregulation for intrastate switched access rates.</i> Since 2002, 22 companies have been allowed to break the freeze and adjust their rates so that they could respond to customer demands for expanded calling areas.	<i>Rates regulated flexibly.</i> State law in 2000 gave CLECs option of accepting rate freeze in return for deregulation of their intrastate switched access rates and waiver of law's requirements for expanding local calling areas. No CLEC has exercised this option so far.
MN	Qwest: Price caps (1999-2005). Nonindexed caps for local exchange and access. Other basic and emerging competitive services flexibly priced. Rates for fully competitive services deregulated.	<i>Pricing flexibility.</i> Other incumbents (all under 50,000 lines) can self-select flexible pricing system that allows them to price basic services to market unless greater of 500 or 5 percent of raters seek PUC review of rate change. Nonbasic and emerging competitive services flexibly priced. Rates deregulated for fully competitive services.	<i>Rates regulated flexibly.</i>
MS	Citizens Telecom (formerly GTE): ROR. Company has not proposed any alternative regulation option.	<u>ROR</u>	<i>Rates regulated flexibly.</i>
MO	BellSouth: Price caps (1996-2007). Rate freeze for basic service rates; access capped at interstate rates; all other services can increase up to 20 percent per year in small increments throughout the year or a single annual increase.	<i>ROR for other investor-owned incumbents. A 2005 state law allows them to seek rate deregulation in any exchange where two or more local competitors operate. BPS Telephone 2004 petition for switching to caps under the old law was denied. Only Alltel Communications has requested price cap status under the new law and its request was granted (effective Oct. 14, 2005).</i>	<i>Rates flexibly regulated.</i> Rates presumed competitive except for access charges, which are capped at incumbent's rate.
MT	All investor-owned incumbents: ROR. Qwest can request pricing flexibility to match local competitors' rates in exchanges where competitors operate, but earnings still count in rate-of-return calculations. Qwest can also request full deregulation of services that are subject to effective local competition.	<i>Rates not reviewed.</i> CLECs rates are not regulated; the companies must comply with PSCs telecom service rules.	<i>Rates not reviewed.</i> Rate changes aren't reviewed, except if a basic exchange increase exceeds 30 percent. CLECs in state universal service fund are subject to fund's rate benchmarking rules.
NE	All: Rates not reviewed. PSC can roll back excessive residential local rate increases in exchanges without competition upon petition by affected raters. Basic exchange rate increases exceeding 10 percent get automatic review, unless telco has under 5 percent of state total access lines, in which case review threshold is 30 percent. Companies receiving universal service funding may be affected by 12 percent earnings benchmark set by PSC in 2001, as well as by benchmark rates of \$17.50 residential and \$27.50 business.		

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 1
STATE RETAIL RATE REGULATION OF LOCAL EXCHANGE COMPANIES
(AS OF SEPTEMBER 2005) - Continued

State	Large Incumbents	Other Incumbents	CLECs
NV	<p>Sprint Nevada: <u>Price caps (1996-2007).</u> Basic service under nonindexed caps. Rate cuts allowed but not increases. Nonbasic services can increase up to 5 percent annually to cumulative total 20 percent increase.</p> <p>Competitive services flexibly priced. Broadband services and business services provided under customer-specific contracts deregulated.</p>	ROR.	<i>Rates not reviewed.</i>
NH	<p>All: ROR. General guidelines for alternative regulation were adopted in 1996. Only Kearsarge Telephone has applied for price-based regulation. Petition was denied in April 2004. State law effective July 1, 2005, gave incumbents other than Verizon option of same regulation as CLECs if they prove to PUC most customers have access to competitive wireline, wireless or IP-based service providers.</p>	ROR.	
NJ	<p>Verizon: Price caps (2005). Statewide basic residential and business caps restructured in 2005, fixed at \$8.95 (residential) and \$15.00 (business). Business rates for customers with two or more lines deregulated. Other competitive service rates deregulated.</p>	ROR.	
NM	<p>Qwest, Valor Telecom: <u>Price caps (2001-2006).</u> Nonindexed caps for basic services. For nonbasic services, Qwest capped at average of rates in its 14-state home region, while Valor can raise nonbasic rates up to 5 percent annually. Competitive service rates deregulated. Starting in 2006, Valor's cap program must include some form of indexing for adjusting caps.</p>	<p><i>Rates not reviewed.</i> Other incumbents with less than 50,000 lines were deregulated. Basic residential rates increases subject to regulatory review if 2.5 percent of ratepayers affected or if PRC staff protest the increase.</p>	
NY	<p>Verizon: Tariff regulation (2004). Rates for basic services can change by tariff, but need to be cost-justified. Non-basic and competitive services flexibly priced. Earnings could be reviewed if excessive profits are suspected.</p> <p>Frontier Telephone of Rochester: <u>ROR.</u> Price cap plan expired at the end of 2004, when Frontier defaulted to fully tariffed ROR.</p>	ROR.	<i>Rates regulated flexibly.</i>
NC	<p>BellSouth: Price caps (2005). Indexed price caps. Basic service charges can rise up to 10 percent, subject to revenue cap for basic basket equal to 1.5 times annual GDP-PI. Vertical and nonbasic services can rise up to 20 percent, subject to basket revenue cap equal to 2.5 times annual GDP-PI. Competitive services' rates deregulated. Effective Dec. 2005, all BellSouth business services will be classed as competitive -- except basic exchange and installation, classed competitive in Dec. 2006.</p>	<p>Verizon: Price caps (2005). Basic serv. rates can rise up to 10 percent subject to basic basket revenue cap of 1.5 times annual GDP-PI.</p> <p>Sprint (Centel, Carolina Telephone and Telegraph): <u>Price caps (2005).</u> Basic serv. rates can rise up to 12 percent subject to basic-basket revenue cap equal to annual GDP-PI. Vertical, nonbasic and competitive serv. rates under same terms as BS.</p> <p>Alltel, MetTel, Concord Tel, and North State Comm's: Price caps. Indexed price caps (GDP-PI - 2 percent); rate element constraint equal to GDP-PI plus 3 percent; service specific caps for most other serv.</p> <p>Eight small incumbents under ROR. Randolph Telephone requested price-based reg in 2005 (eff. Jan. 1, 2006).</p>	<i>Rates not reviewed.</i>

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 1
STATE RETAIL RATE REGULATION OF LOCAL EXCHANGE COMPANIES
(AS OF SEPTEMBER 2005) - Continued

State	Large Incumbents	Other Incumbents	CLECs
ND	Qwest: Price caps (2003). Nonindexed caps for basic exchange and switched access. Rate decreases allowed but increases only when government action increases service costs. Rates for other services flexibly priced. Business basic exchange and additional residential lines were removed from nonindexed caps (August 2005). North Dakota Telephone: ROR.	Rates not reviewed. Retail rates of investor-owned incumbents with fewer than 8,000 lines and of all telephone cooperatives regardless of size have been deregulated since 1983. Carrier access services are rate deregulated, unless carrier request intrastate access price regulation, but earnings are not regulated.	Rates not reviewed.
OH	SBC/Sprint/ Cincinnati Bell/ Alltel/ Century Tel/ Chillicothe Horizon/Western Reserve: Price caps (2002). Plan freezes basic local rates indefinitely. Rates for certain vertical services and specialty business services frozen two years from effective date of each individual telco's plan and then can increase up to double initial rate. All other retail rates flexibly priced. Alltel and Western Reserve opted for generic alternative regulation plan in 2004. SBC: Price caps (1999-2005). Pricing flexibility for Basket 3. Switched access, E-911 and payphone access under pricing flexibility equal to change in inflation minus 1 percent. In Service Basket 3, if the competitive test is met, then pricing flexibility is capped at 12 percent per year. If the competitive test is not met, then pricing flexibility is equal to the change in inflation -1 percent. Both scenarios fall under 30-day notice and regulatory review. Pricing flexibility for all competitive services in Basket 4, per PUD 2004-0042.	ROR (traditional or streamlined). 36 remaining incumbent carriers have choice of opting into PUC's generic alternative regulation plan or propose a company-specific regulation plan.	Rates flexibly regulated. CLECs also will have option of switching to price-based regulation framework PUC adopted for incumbents, but none have done so.
OK	Qwest: Price caps (2000). Rate freeze for residential and small business basic exchange, PBX trunks, and payphone access services, except for cost-justified rate changes. Nonindexed price caps for all other services, with cost floors. Carrier can lower its rates for all services on short notice and has done so for most of its OR markets. Verizon, Sprint, and Century Tel: ROR. Companies can request right to change rates on short notice in competitive markets and have done so for most of their exchanges. Carriers have the ability to lower rates without prior approval in most of their exchanges under ORS 759.050.	Rates and earnings not reviewed for other incumbents with fewer than 50,000 lines. PUC can review rate changes if the lower of 10 percent of affected ratepayers petition for review.	Rates not reviewed.
OR	All: Price caps (2002). Basic services under indexed caps. Competitive services flexibly priced. Revenue-neutral rate rebalancing permitted. All telcos were required to restructure their access charges so fixed costs would be recovered through flat rates. A Dec. 2004 state law ended productivity offsets in price cap indexing formulas if telcos agreed to shorten an original 2015 broadband deployment deadline to 2008. All but four small companies agreed. Verizon: Price caps (2003-2005). Basic residential service under nonindexed caps that allowed an increase of \$1 per line in 2003 and another \$1 in 2004. PUC must review any new proposed increases in residential rates. Other retail services can be set at any point above cost floors. Plan expired in December 2005.	No other incumbents	Rates reviewed, but normally not questioned.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 1
STATE RETAIL RATE REGULATION OF LOCAL EXCHANGE COMPANIES
(AS OF SEPTEMBER 2005) - Continued

State	Large Incumbents	Other Incumbents	CLECs
SC	BellSouth: Price caps (1999). Nonindexed price caps for basic service. Other services flexibly priced. Cumulative effect of all rate changes cannot increase total revenue more than 5 percent per year. Rate deregulation for all retail service bundles offered by price-regulated incumbents, regardless of services comprising bundle.	<i>Price caps (2004).</i> 2004 state law established optional price cap system for other incumbents. Eleven incumbents opted in. Basic residential and business services capped at statewide average rates. Other nonbasic under caps indexed to national CPI. Price flexibility, subject to revenue cap for competitive basket equal to 5 percent annually. 2005 state law deregulated rates for all retail service bundles offered by price-regulated incumbents, regardless of services comprising bundle. <u>ROR</u> . Remaining other incumbents.	<i>Rates not reviewed.</i> Certified CLECs must seek "presumptively valid" tariffing status to receive minimal regulation.
SD	Qwest: Deregulation (2003). All retail rates for Qwest were deregulated statewide based on competition.	<i>Rates not reviewed (1987).</i> State law allows for deregulation if petitioned by most customers. Power has not been used.	<i>Rates not reviewed.</i>
TN	BellSouth, Citizens Telecom, and Sprint: Price caps (1996). Indexed price caps (lesser of one-half GDP-PI or GDP-PI - 2 percent) for all services. Rate deregulation of bundled services and customer-specific service contracts of price-regulated incumbents.	<i>ROR.</i> Option to switch to price caps or other alternatives to ROR, but have not done so.	<i>Rates not reviewed.</i>
TX	SBC, Verizon, Sprint, Valor Telecom: Price caps (1999-2007). Residential basic, 911, Lifeline and carrier access under nonindexed caps. All other services flexibly priced, except for ban on below-cost pricing. Intrastate access charges to be reduced to interstate levels. A 2005 state law gives incumbents option of new program that will deregulate retail rates of all providers in cities over 100,000 population effective Jan. 1, 2006. Law is being challenged in state courts and effective dates may be stayed.	<i>Price caps (1999-2007).</i> Cap system same as SBC and other large incumbents. Law will deregulate rates in communities between 30,000 and 100,000 population on Jan. 1 if there are two landline and one wireless carrier competing against incumbent. Rates in communities under 30,000 will be deregulated Jan. 1, 2007 except where PUC determines meaningful competition is lacking.	<i>Rates not reviewed.</i>
UT	Qwest: Price caps (2005). Nonindexed caps for residential basic exchange. Service capped at current rates through 2007. Rates for all other retail services deregulated. After 2007, PSC must lift residential cap in exchanges where local competitors offer residential basic exchange.	<i>Streamlined ROR.</i> Earnings and rate changes for other incumbents (all with fewer than 30,000 lines) get speedy administrative review through expedite process. But if 10 percent of ratepayers challenge result, full rate case is held. Other incumbents have option to switch to deregulation regime prescribed in the 2005 law.	<i>Rates flexibly regulated.</i>
VT	Verizon: Price caps (2005-2008). All noncompetitive services under nonindexed caps set at levels prevailing in April 2005. \$8.18 million in retail rate reductions at the outset of the plan. Rate reductions can be offset by increased broadband rollout. Price flexibility for new competitive services. New plan extended through 2008.	<i>Streamlined ROR.</i> 2005 state law allows state's nine other incumbents to increase rates 9 percent total over three years without rate case, but basic service rates can't rise first year.	<i>Rates flexibly regulated.</i> PSB considering rule changes to lighten CLEC regulation.
VA	Verizon VA/Verizon South: Price caps (2005). Basic service rates capped at 1994 levels, adjusted annually for inflation as measured by GDP-PI. Nonbasic rates can rise up to 10 percent the first year and additional 1 percent each additional year this program runs. Revenue-neutral price changes can be sought any time, providing no single increase exceeds the lesser of 25 percent or the basic-service rate cap, and providing at least a year has passed since the last rate increase. Price cuts are subject to cost floor.	<i>Rate deregulation.</i> Rates of investor-owned small telcos partly deregulated by statute. Telcos are free to move rates up or down in response to markets, as long as they are advertised and do not result in excessive complaints to the Commission. Telephone cooperatives are deregulated.	<i>Some rates regulated.</i> Rates are capped at incumbent's rate unless regulatory waiver is obtained.
	Sprint Telcos: Price caps (1995). Basic services under indexed caps (one-half GDP-PI). Discretionary services indexed (GDP-PI). Competitive services flexibly priced.		

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 1
STATE RETAIL RATE REGULATION OF LOCAL EXCHANGE COMPANIES
(AS OF SEPTEMBER 2005) - Continued

State	Large Incumbents	Other Incumbents	CLECs
WA	All: ROR. Companies can petition for rate deregulation of competitive services, but revenues continue to be accounted for on regulated side and in rate-of-return calculations. Rate deregulation granted to large incumbents' toll, directory assistance and business services to large customers in markets where competitors operate. In 2003 Qwest received statewide deregulation for all analog business telecom services in all markets and for all retail business telecom services in 2004.		Rates flexibly regulated.
WV	Verizon: <i>Incentive regulation</i> . Basic rates under nonindexed caps, vertical services allowed to rise by rate of inflation (GDP-PI), competitive services rates deregulated.	ROR.	Rates flexibly regulated.
WI	Frontier Communications: <i>Incentive regulation</i> . Basic rates capped, vertical services allowed to rise by rate of inflation (GDP-PI); company can request rate deregulation for competitive services.	SBC: <i>Price caps (1994)</i> . Indexed price caps for noncompetitive services (GDP-PI - 3 percent); the 3 percent X-factor applies to companies with more than 500,000 access lines. Competitive services flexibly priced. The PSCW removed small business (one to three lines) from price regulation in 2004 after a competitive showing. The PSCW removed residential service in urban and suburban areas from price regulation in 2005 after a competitive showing. This increased SBC's rate flexibility for these services.	Flexible regulation. 26 under some form of price-based regulation; 42 under streamlined ROR with some degree of price flexibility but no earnings reviews unless they seek rates above statewide averages; two under traditional ROR; 12 telephone cooperatives are <u>not</u> rate regulated.
WY	Verizon: <i>Price caps (1995)</i> . Indexed price caps for noncompetitive services (GDP-PI - 2 percent); the 2 percent X-Factor applies to companies with less than 500,000 access lines. Competitive services flexibly priced.	All Incumbents: <i>Rates not reviewed (Cost-based pricing flexibility - 2003)</i> . Retail service rates to be set above TSLRIC cost floor. But an incumbent that prices basic local service above statewide benchmark rate of \$23.10 monthly may face review of its state universal service support.	Rates not reviewed. Rate change of fully facilities-based CLECs could be subject to regulatory staff review, but such carriers are not currently operating in the state.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 2
CHANGES IN STATE RETAIL RATE REGULATION OF INCUMBENT LOCAL EXCHANGE COMPANIES
(OCTOBER 2004 TO SEPTEMBER 2005)

STATE	COMPANY	CHANGES
AL	All incumbents	2004 state law allows incumbents starting this year to opt into more-flexible capping system that bases rate regulation on population density. Plan deregulates retail rates other than residential basic exchange in dense urban areas. In less-dense suburbs, rate increases limited to 15 percent annually through 2006, 20 percent in 2007 and 25 percent afterward. In rural areas, increases limited to 5 percent through 2007, gradually rising to 15 percent by 2010. 2005 state law gave incumbents option of regime that will deregulate bundled and contract services statewide in summer 2006 and, starting 2008, allow incumbents facing at least two local competitors to opt out of state retail rate regulation. PSC has opened proceeding to reevaluate its entire regulatory scheme, in hopes of enticing at least some incumbents to remain under state rate regulation.
AK	All incumbents	Regulators in Sept. 2005 adopted new rules that designate as competitive any market where a facilities-based wireline carrier is providing local service in competition with the incumbent.
AZ	Qwest	Noncompetitive services can rise up to 25 percent per year. Staff in August 2005 recommended extending price cap program through 2007 and allowing Qwest \$43.3 million in rate increases for nonbasic services over three-year span to correct revenue deficiency. In return, Qwest would abandon its May 2004 proposal for rate-deregulated competitive zones in state's major cities and drop litigation over a \$12 million productivity adjustment ordered in April 2005. Decision possible before end of 2005.
AR	SBC	SBC in late 2004 and early 2005 received basic exchange rate deregulation in its competitive urban markets.
CA	SBC, Verizon, Surewest Telecom, Citizens Telecom/Frontier	PUC is reviewing price cap regulation programs for all four incumbents, aiming to eliminate retail rate regulation other than for basic exchange service of larger incumbents.
CO	Other incumbents	PUC required that if earnings-regulated small incumbents want to continue receiving state high-cost subsidies, it must file a rate case within five years of their last case. Otherwise their state high-cost support will be phased out.
	Qwest	New plan adopted in June 2005. Basic exchange on first residential line and first five business lines under nonindexed caps. Statewide deregulation of interexchange service rates; rates for business services to customers over five lines and optional or discretionary services deregulated in state's five largest cities and in any other market where sufficient competition can be demonstrated. Under the 2005 new regulatory plan, Qwest is only subject for penalties for two service quality metrics: out of service for 24 hours or more (direct payment to affected customer with no maximum penalty amount per year) and access to repair centers (with a maximum penalty of \$250,000 per year).
CT	Verizon	Regulators in August 2005 tentatively affirmed contested December 2004 decision to continue Verizon price flexibility through 2007 final decision was approved by the commissioners on Aug. 31, 2005.
DE	Verizon	In June 2005, PSC concluded review of plan by extending it unchanged until September 2011. No special conditions imposed.
DC	Verizon	Plan was to have expired in April 2004; extended to end of 2006 under settlement that gave Verizon a small local rate increase.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 2
CHANGES IN STATE RETAIL RATE REGULATION OF INCUMBENT LOCAL EXCHANGE COMPANIES
(OCTOBER 2004 TO SEPTEMBER 2005) - Continued

STATE	COMPANY	CHANGES
FL	BellSouth, Verizon, Sprint	PSC in December 2003 approved plan to give the three companies \$355 million total in local rate increases. Increases were stayed by the Florida Supreme Court and finally upheld in June 2005. BellSouth, Verizon and Sprint filed (Sept. 16, 2005) for increases in basic services and for an intrastate access charge decrease, effective Nov. 2005. The companies may file for another increase in basic services and decrease in intrastate access charge effective one year after the effective dates of 2005 rebalancings.
HI	Verizon	Verizon Hawaii's wireline operation was sold to NY-based Carlyle Group in transaction that closed May 2005, renamed Hawaiian Telcom and reorganized. PUC sale-approval condition PUC required new owners to not file general rate case before 2009. New company remains under ROR.
ID	Qwest	Passage of a state law effective in June 2005 changed basic exchange to customers under five lines from rate-of-return regulation to temporary price caps that limit annual rate increases to 10 percent. Caps will expire in 2008, unless PUC extends them to 2010. After caps expire, basic exchange will be deregulated.
IL	SBC	Rate freeze of residential rates lifted. Residential rates are now under caps indexed to GDP-PI minus 3 percent, similar to other noncompetitive services.
IN	SBC	Following plan ending in 2007, all other retail services and all service bundles are considered competitive and rate deregulated except for floor set at cost plus 10 percent. Plan ending in 2007 sets basic local rates under nonindexed caps. Company can impose single 25¢ increase for vertical services in 2006.
	Verizon	Deregulation for all other retail services and service bundles, considered competitive. Price floor set at cost plus 10 percent.
	Sprint	Plan ending in 2007 deregulated rates for all service bundles and retail services, with the exception of basic residential, small business and vertical services. Floor price set at cost plus 10 percent.
IA	Qwest	2005 state law deregulated retail rates except for single-line basic exchange service. Single-line basic exchange under caps. Rates can rise by \$1 per year residential or \$2 per year business up to a statewide cap of \$19 monthly for residential service and \$38 for business service. Full rate deregulation allowed in any market where competitive alternatives exist. To March 2006, 40 communities had been deregulated under Dockets Nos. INU-04-1 and INU-05-2.
KS	SBC	Companies can petition for rate deregulation of competitive services in markets where competition exists. In June 2005 SBC was granted rate deregulation for multiline business services, Plexar access lines, and Digital Loop Service in Wichita; for bundled services in Kansas City and Wichita; and flat rate business trunks, Smart Trunks and Digital Loop Super Trunk Option in Kansas City, Wichita, and Topeka. (Docket No. 05-SWBT-997-PDR).
	BellSouth	Basic service rates now under caps indexed to GDP-PI.
KY	Cincinnati Bell	To mirror the regulatory plan for Cincinnati Bell in Ohio, the company adopted Ohio's generic price cap plan in late 2004. New plan freezes rates for basic local; rates for some vertical services and specialty business service rates are frozen only through 2006 and then allowed to increase up to cap set at double the initial rate.
LA	BellSouth	In 2004, the company fulfilled its DSL infrastructure investment requirements, making DSL available throughout its service area. After 2006, BellSouth may raise basic service rates up to 10 percent a year in urban markets with competition.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 2
CHANGES IN STATE RETAIL RATE REGULATION OF INCUMBENT LOCAL EXCHANGE COMPANIES
(OCTOBER 2004 TO SEPTEMBER 2005) - Continued

STATE	COMPANY	CHANGES
ME	Verizon Other incumbents	PUC in March 2005 opened docket on successor plan. First phase will determine starting revenue requirement and rates for successor plan; Second will address specifics of new price regulation plan. Proceeding in discovery phase, with initial briefs scheduled for fall 2005. Current plan expires July 2006.
MD	Verizon	PUC in June opened investigation into petitions for price-based regulation from Pine Tree Telephone and Saco River Telephone, both County Road Communications affiliates. First phase will address whether to consider alternative regulation; Second, specific plans. Schedule not set.
MA	Verizon	PSC has open docket to consider price cap indexing adjustments for 2002 and 2003, but expanded in 2004 into general review of price cap program. Verizon has proposed elimination of productivity offset, and rate deregulation of toll and local business services. Record completed in spring 2005. On Nov. 23, 2005, PSC adopted a settlement agreement (Case Nos. 8745, 8918 and 8937) that increased basic service rates by a modest amount, imposed a subsequent two-year cap and constrained post-cap increases to be no higher than the rate of inflation.
MI	SBC, Verizon, other incumbents, CLECs	Basic residential local service and analog private lines under nonindexed caps. All other retail services under pricing flexibility. Rates can move anywhere above wholesale floor.
MN	Qwest Sprint	In August 2005 PSC approved rate deregulation for retail services of all telecom providers in state's 30 largest cities, effective late October 2005, after customers receive notice. The Order has been appealed to state courts. Regulation of fall providers may be affected by Dec. 2005 Michigan Telecom sunset and legislature's response. On Nov. 21, 2005 Governor Jennifer M. Granholm signed into law PA 235, which amends PA 179 of 1991 entitled "Michigan Telecommunications Act." The effective date is Nov. 22, 2005. The amended Act has new provisions for services that are rate regulated and how they are rate regulated. This information will be included in the next update.
MO	Other incumbents	Since 2002, 222 incumbent companies under rate freeze have been allowed to adjust their rates so they could respond to customer demand for expanded calling areas.
MT	Qwest	Price cap plan extended two years until December 2005 by a 2004 state law. Qwest and the state are negotiating a new regulatory plan to become effective in 2006.
	Sprint	Sprint's plan was to have come up for review this fall but telco has asked it be extended through 2006 without change.
	Other incumbents	Two other small incumbents opted for flexible pricing in 2005. As of September 2005, 67 of 83 eligible carriers had opted for this regime.
	SBC, Sprint, Century Tel, Spectra/Century	Nonbasic services can rise up to 5 percent annually down from 8 percent in last report. 2005 legislature passed law (effective August 2005) deregulating rates for bundled services and for stand-alone services in any exchange where two or more local competitors operate. SBC sought competitive status for roughly 2/3 of its 160 exchanges. Sprint filed for five exchanges. CenturyTel for 15 and Spectra for five. All these petitions were to be decided by end of October 2005.
	Other incumbents	BPS Telephone 2004 petition for switching to caps under the old law was denied. A 2005 state law allows other incumbents to seek rate deregulation in any exchange where two or more local competitors operate. Only Alltel Communications has requested price cap status under the new law and its request was granted (effective Oct. 14, 2005).
	Qwest	PSC initiated a docket requiring Qwest to file information on its rate of return. In July 2003 PSC stated company reports indicated substantial overearnings. Carrier appealed to state courts, claiming PSC exceeded statutory authority by initiating rate case imposing burden of proof onto Qwest, not the agency. Lower court sided with Qwest in fall 2004 but PSC appealed further. Case is pending.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 2
CHANGES IN STATE RETAIL RATE REGULATION OF INCUMBENT LOCAL EXCHANGE COMPANIES
(OCTOBER 2004 TO SEPTEMBER 2005) - Continued

STATE	COMPANY	CHANGES
NE	All incumbents CLECs	Basic exchange rate increases exceeding 10 percent get automatic review, unless telco has under 5 percent of state total access lines, in which case review threshold is 30 percent. Rate changes aren't reviewed, except if a basic exchange increase exceeds 30 percent.
NV	Sprint	Impending spin-off of Sprint's local exchange operations to LTD Holdings under terms of Sprint-Nextel merger isn't expected to change nature and duration of regulatory plan. Sprint filed spin-off plan in August and PUC is expected to complete its review by end of 2005.
NH	All incumbents	State law effective July 1 2005 gave incumbents other than Verizon option of same regulation as CLECs if they prove to PUC most customers have access to competitive wireline, wireless or IP-based service providers.
NJ	Verizon	Plan reviewed in 2005. Statewide basic residential and business caps restructured in 2005, fixed at \$8.95 (residential) and \$15.00 (business). Business rates for customers with two or more lines deregulated. Other competitive service rates deregulated. 2005 restructured plan continued investment and service qual. requirements, as well as requirement for Verizon to provide public schools and libraries discounted monthly rates for high-speed Internet access until 2014.
NM	Qwest	Qwest was given one extra year to fulfill its investment requirements. In July 2004 the PRC opened docket to determine whether Qwest is on schedule to meet network investment commitment. In early 2005, staff concluded Qwest would fall \$288 million short of investment commitment and suggested sanctions. Qwest requested more time or reduced investment requirement and appealed to state and federal courts. Matter is pending.
NY	Valor	A 2004 state law requires Valor's cap program to include some form of indexing for adjusting caps, starting in 2006.
NY	Frontier Telephone of Rochester	Frontier's price cap plan expired at the end of 2004, when it defaulted to fully tariffed ROR.
	BellSouth	Price cap plan adopted in April 2005 to replace expired 1996 plan. Basic service charges can rise up to 10 percent, subject to revenue cap for basic basket equal to 1.5 times annual GDP-PI. Vertical and nonbasic services can rise up to 20 percent, subject to basket revenue cap equal to 2.5 times annual GDP-PI. Competitive services' rates deregulated. Effective December 2005, all BellSouth business services will be classed as competitive -- except basic exchange and installation, classed competitive in December 2006.
	Verizon	New cap plan adopted in Spring of 2005. Basic service rates can rise up to 10 percent subject to basic basket revenue cap of 1.5 times annual GDP-PI. Vertical and nonbasic services can rise up to 20 percent, subject to basket revenue cap equal to 2.5 times annual GDP-PI. Competitive services' rates deregulated.
NC	Sprint (i.e. Carolina Telephone and Telegraph and Central Telephone Co.)	New cap plan adopted in spring of 2005. Sprint basic services can rise up to 12 percent subject to basic-basket revenue cap equal to 2.5 times annual GDP-PI. Vertical and nonbasic services can rise up to 20 percent, subject to basket revenue cap equal to 2.5 times annual GDP-PI.
	Other incumbents	Concord Telephone revised price-based plan, similar to the new programs for BellSouth, Verizon and Sprint, became effective in September 2005. Altair filed a stipulated new price cap on Oct. 18, 2005, which was approved on January 2006 and became effective on March 15, 2006. Randolph Telephone requested price-based regulation in 2005 and its new plan became effective on Jan. 1, 2006.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 2
CHANGES IN STATE RETAIL RATE REGULATION OF INCUMBENT LOCAL EXCHANGE COMPANIES
(OCTOBER 2004 TO SEPTEMBER 2005) - Continued

STATE	COMPANY	CHANGES
ND	Qwest	Business basic exchange and additional residential lines were removed from nonindexed caps by state law (August 2005).
OH	Alltel, Western Reserve	Companies opted for generic alternative price regulation framework PUC adopted April 2002. Plan freezes basic local rates indefinitely. Rates for certain vertical services and specialty business services frozen two years from effective date of each individual telco's plan and then can increase up to double initial rate. All other retail rates flexibly priced.
OK	SBC	Regulators in July 2005 approved new regulation plan that would allow SBC to set retail rates at any point above cost floor except in rural areas where local rate increases were limited to \$2 per year. Order required SBC to expand DSL availability in rural areas. Order was stayed pending outcome of CLEC appeals to state Supreme Court, where case is pending.
PA	All incumbents	A December 2004 state law ended productivity offsets in price cap indexing formulas if telcos agreed to shorten the original 2015 broadband deployment deadline to 2008. All but four small companies agreed. That law also allowed incumbents to self-certify that a service is competitive and exempted rural telcos under 50,000 lines from many competition obligations, effectively limiting rural competition to facilities-based providers.
RI	CLECs	A December 2004 state law capped CLEC access charges at incumbents' level and freed CLECs from Lifeline and residential service obligations unless they are receiving federal universal service subsidies.
SC	Verizon	Verizon's plan expired in December 2005. PUC opened docket on successor plan; Verizon filed proposal in September 2005.
TN	BellSouth, Sprint and Verizon	2005 state law deregulated rates for all retail service bundles offered by price-regulated incumbents, regardless of services comprising bundle.
TX	All incumbents	2004 state law established optional price cap system for other incumbents. Eleven incumbents have opted for this system. Basic residential and business services capped at statewide average rates. Other nonbasic under caps indexed to national CPI. Price flexibility, subject to revenue cap for competitive basket equal to 5 percent annually. 2005 state law deregulated rates for all retail service bundles offered by price-regulated incumbents, regardless of services comprising bundle.
UT	Other incumbents	2005 state law deregulated retail rates for bundled services and customer-specific service contracts of price-regulated incumbents.
	Qwest	A 2005 state law gives incumbents option of new program that will deregulate retail rates of all providers in cities over 100,000 population effective Jan. 1, 2006. Law will deregulate rates in communities between 30,000 and 100,000 population on January 1 if there are two landline and one wireless carrier competing against incumbent. Rates in communities under 30,000 will be deregulated Jan. 1, 2007 except where PUC determines meaningful competition is lacking. Law also vests video franchising authority with state, not municipalities. Law is being challenged in state courts and effective dates may be stayed. In February 2006, the PUC refused to reconsider its decision to deregulate retail rates in 14 mid-size local markets.
	Other incumbents	A 2005 state law replaced a price cap regime established in 1997. The new system caps residential basic exchange at current rates through 2007 and deregulates all other retail service rates. After 2007, PSC must lift residential cap in exchanges where local competitors offer residential basic exchange. In 2004 and 2005 Qwest continued winning significant retail rate deregulation in more populated areas because of competition (about 85 percent of total business lines and about 50 percent of residential lines).
		Other incumbents have option to switch to deregulation regime prescribed in the 2005 law.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 2
CHANGES IN STATE RETAIL RATE REGULATION OF INCUMBENT LOCAL EXCHANGE COMPANIES
(OCTOBER 2004 TO SEPTEMBER 2005) - *Continued*

STATE	COMPANY	CHANGES
VT	Verizon	Carrier completed \$16.5 million in rate cuts over life of plan and provision of free T-1 service to 56 high-schools expired in April 2005. New plan was approved in 2005. Nonindexed caps for basic and other noncompetitive services set at levels prevailing in April 2005. \$8.18 million in retail rate reductions at the outset of the plan. Rate reductions can be offset by increased broadband rollout to unserved areas. Price flexibility for new competitive services.
	Other incumbents	Other incumbents under new streamlined ROR. 2005 state law allows state's nine other incumbents to increase rates 9 percent total over three years without rate case, but basic service rates can't rise first year. Carriers can seek additional increases from regulators to cover external cost increases such as tax hikes or weather disasters. Law sunsets July 2008.
VA	Verizon VA and Verizon South	New price cap plan caps basic service rates at 1994 levels, adjusted annually for inflation as measured by GDP-PI. Nonbasic rates can rise up to 10 percent the first year and additional 1 percent each additional year this program runs. Revenue-neutral price changes can be sought any time, providing the lesser of 25 percent or the basic-service rate cap, and providing at least a year has passed since the last rate increase. Price cuts are subject to cost floor. The new plan eliminates previous link between price increases and service quality performance of local exchange service.
WA	Qwest	In 2004 Qwest received statewide deregulation for all retail business telecom services. In March 2006 Qwest expressed an interest in negotiating an AFOR plan with the WUTC. The WUTC is organizing a process that would include all interested parties in those discussions.
	Verizon	In April 2005 Verizon settled a rate case requesting \$240 million increase; the company only received \$38.6 million.
	Verizon	Verizon in 2004 received approval to add several business digital data services (digital data services, primary rate ISDN service, frame relay and asynchronous transfer mode services, transparent LAN services and speed dialing) to deregulated list. Incentive regulation plan expires at year-end 2005. PSC staff and Verizon planned to meet in August 2005 to discuss extension or replacement of plan.
WV	Frontier Communications	PSC extended the company's program in May 2005 until end of 2012. Basic rates capped, vertical services allowed to rise by rate of inflation (GDPPI), company can request rate deregulation for competitive services. Extension order requires Frontier to invest \$116 million over next seven years in infrastructure, contribute \$132,000 per year to public benefit projects approved by State Telecommunications Users Council and reduce intrastate access charges to interstate levels.
WI	SBC	In late 2004, regulators reclassified SBC's basic business and toll services as competitive and in late 2005 reclassified SBC's residential service as competitive in city and suburban market areas.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2005)

State	ILEC	Regime	Expiration Date	Rate Regulation by Type of Service		Earnings Regulation	Infrastructure Requirements	Rate/Service Notice	Other Plan Requirements	Comments
AL	All	Price caps (1996)	None	Nonindexed caps (basic exchange and access rates)	Can rise up to 10 percent per year, in aggregate, with rate design subject to PSC review.	Not regulated				2004 state law allows incumbents starting this year to opt into more-flexible capping system that bases rate regulation on population density. Plan deregulates retail rates other than residential basic exchange in dense urban areas. In less-dense suburbs, rate increases limited to 15 percent annually through 2006, 20 percent in 2007 and 25 percent afterward. In rural areas, increases limited to 5 percent through 2007, gradually rising to 15 percent by 2010.
AK	Large incumbents (more than \$500,000 annual revenue)	Streamlined rate of return (1992)				Revenues from services in competitive markets still count in rate-of-return calculations				Regulators in September 2005 adopted new rules that designate as competitive any market where a facilities-based wireless carrier is providing local service in competition with the incumbent.
AK	Small incumbents (less than \$500,000 annual revenue)	Streamlined rate of return (1992)				Revenues from services in competitive markets still count in rate-of-return calculations				Regulators in September 2005 adopted new rules that designate as competitive any market where a facilities-based wireless carrier is providing local service in competition with the incumbent. Small incumbents can opt out of state rate and earnings regulation upon approval of ratepayers. Four small wireless local service provider companies (Junoau or where a facilities-based wireless local service provider competes with incumbent), incumbents can cut rates on 30 days' notice without prior state approval but any increase back to previous level may be subject to state review. They can also set limited-duration promotional rates to match competition without prior state approval.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3
**DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
 (AS OF SEPTEMBER 2005) - Continued**

State	ILEC	Regime	Expiration Date	Rate Regulation by Type of Service	Earnings Regulation	Infrastructure Requirements	Rate Service Notice	Other Plan Requirements	Comments
AZ	Qwest	ROR with price caps (2001)	Review in 2004 X-Factor value=4.2 percent	Rate freeze; Noncompetitive services can file cap for entire basket of competitive services, up to 25 percent, per year.	Carrier under earnings-based regulation passed to ROR on "fair value" of rate base. Earnings from all services count in ROR calculations. Revenues from all services count in ROR calculations.	Notices to affected customers within 60 days of the effective date of any changes in tariffs (A.A.C. R14-2-504). The commission has between 120-260 days (depending on the class of the utility) to review a proposed rate increase before becoming effective (A.A.C. R14-2-103). Staff Report: Author feasibility due between 60-180 days (depending on the class of the utility).	In March 2001 rate case decision that granted Qwest \$2.9 million net revenue increase, regulators established price capping system to give Qwest pricing flexibility. Major deregulation of telecom rates or services requires voter approval of constitutional amendment. Staff in August 2005 recommended extending price cap program through 2007 and allowing Qwest \$4.3 million in rate increases for nonbasic services over three-year span to correct revenue deficiency. In return, Qwest would abandon its May 2004 proposal for rate-deregulated competitive zones in state's major cities and drop litigation over a \$12 million productivity adjustment ordered in April 2005. Decision possible before end of 2005.		
AR	Other incumbents	ROR		Fully tariffed ROR. No pricing flexibility allowed.	Carrier under earnings-based regulation passed to ROR on "fair value" of rate base.	Not regulated			Incumbents do not have pricing flexibility. Major deregulation of telecom rates or services requires voter approval of constitutional amendment.
AR	SBC, Alltel	Price caps (1997)	Name	Caps indexed to 75 percent of GDP-PI (basic exchange and switched access)	Deregulation				
AR	Century Tel	ROR			ROR regulation				
CA	Other incumbents	Price caps (1991)	Name	Rates for basic exchange allowed to rise annually by lesser of 15 percent or \$2 per line monthly.	Deregulation	Not regulated			
CA	SBC, Verizon, Southwest Telecomm, California Frontier	Price caps (1990)	Name		SBC and VZ earnings not regulated since 1999 when profit sharing was suspended. Other telcos must take earnings over 11.5 percent.				
CA	Other incumbents	ROR			Rate freeze, except for cost-justified changes	Fully tariffed ROR			Several other incumbents are under this regime. In 1997 PUC established a one-line schedule to acquire rates of each small incumbent were passed. PUC required that if regulated telephone companies wanted to continue their rate high-cost subsidies, it must do so at a rate case within five years of file loss. Otherwise rates of state high-cost support will be phased out.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2005) - Continued

State	ILEC	Regime	Expiration Date	Rate Regulation by Type of Service			Earnings Regulation	Infrastructure Requirements	Rate/Service Notice	Other Plan Requirements	Comments
				Basic	Other Noncompetitive	Competitive					
CO	C	Price caps (2005)	C	Qwest extended until deregulatory application is complete	Nonindexed caps for basic exchange on first five lines and optional or discretionary services deregulated in state's five largest cities and in any other market where sufficient competition can be demonstrated.	Price deregulation for interexchange service rates statewide. Rates for business services to customers over five lines and optional or discretionary services deregulated in state's five largest cities and in any other market where sufficient competition can be demonstrated.	Not regulated	None	14 days notice for rate changes, either increases or decreases		New system adopted in June 2005 to replace expired 1999 plan. Although an X-factor is included in Colorado's state law, it has not been enacted or analyzed in the state's PUC regulation.
	Other incumbents	ROR				Fully tariffed ROR					Under the 2005 new regulatory plan, Qwest is only subject for penalties for two service quality metrics: out of service for 24 hours or more (direct payment to affected customer with no maximum penalty amount per year) and access to repair centers (with a maximum penalty of \$250,000 per year).
	SBC (SNET)	Price caps (1996-2006)	2006 review								Option to petition for earnings-based or price-based alternative regulation systems but none have done so.
CT											No pending proceedings. Last review occurred in 2007, without any changes. Next full review due in 2008.
	Verizon	Price caps (1999-2007)	2007 review								
	Other incumbents	ROR				Fully tariffed ROR					
DE	Verizon	Price caps (1994-2011)	September 2011								

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2005) - Continued

State	ILEC	Regime	Expiration Date	Rate Regulation by Type of Service	Earnings Regulation	Infrastructure Requirements	Rate/Service Notice	Other Plan Requirements	Comments
									Plan was to have expired in 2000, but was extended through the end of 2006 under settlement that gave Verizon a small local rate increase.
DC	Verizon	Price caps (2006)	2007	Dial tone until Dec. 31, 2005. Thereafter, Verizon has the option of increasing the dial tone rate by 3%. That rate would remain in effect for the duration of the plan. Other basic residential and business rates may be increased by up to 10 percent each year, but percentage revenue can't exceed annual inflation rate.	Not regulated, except that they must be priced above incremental cost.	Not regulated	All Basic and Disc.; 30 days for comment; 15 days for reply comment. Comm. serv., 14 days.	Serv. Reclassification: After NOPR, 30 days for comments and ten days for reply comments. PSC issues order within 60 days after publ. Serv. without disc.: Disc. and comp. serv. on 30 days notice to comm.; basic serv. needs comm. approval; application deemed approved 60 days after publication.	The plan began its implementation on Jan. 1, 1996. A 2003 state law permitted major rate rebalancing to shift hundreds of millions of dollars from access charges onto local rates and allowed basic services to be regulated like others after two years (three years for Sprint). PSC in Dec. 2003 approved plan to give the three companies \$355 million total in local rate increases. Increases were stayed by the D.C. Supreme Court and finally upheld in June 2005. BellSouth filed (Sept. 16, 2005) for an increase in basic services with an effective date of Nov. 5, 2005 and for an intrastate access charge decrease effective Nov. 1, 2005. Verizon and Sprint filed (Sept. 16, 2005) for a basic services increase and intrastate access charge decrease, both effective on Nov. 1, 2005. The companies may file for another increase in basic services and decrease in intrastate access charge effective one year after the effective dates of 2005 rebalancings.
FL	BellSouth, Verizon, Sprint	Price caps (1995 statute)	None	Rates for nonbasic services categories can be increased up to 6 percent per year in noncompetitive markets.	Not regulated	Nonbasic services categories can be increased up to 20 percent per year in competitive markets.	Basic service: 30 days; nonbasic service: 15 days. Commission's actions are not limited by this notice period.	Other incumbents	Other incumbents can elect price cap regulation under program similar to that for large providers. Six other incumbents have chosen price caps. Only one small incumbent remains under ROR.

Sources: State Telephone Regulation Report; August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2005) - Continued

State	ILEC	Regime	Expiration Date	Rate Regulation by Type of Service	Earnings Regulation	Infrastructure Requirements	Rate/Service Notice	Other Plan Requirements	Comments
GA	BellSouth	Price caps (1995)	None	Caps indexed to GDP- IPI. Access charges capped at interstate rate.	Deregulated	\$2 billion infrastructure investment requirement completed in 2000. No further requirements have been linked to price caps.	Not regulated		Other incumbents can elect price cap regulation under program similar to BellSouth, but without infrastructure requirements. As of September 2005, 75 percent of the state's 34 other incumbents have elected price caps. The rest remain under fully tariffed ROR.
	Other incumbents	Price caps (1996)				No infrastructure investment requirements			
HI	Hawaiian Telcom	ROR				State law requires cost-based and earnings-based regulation until PUC determines effective local competition exists.		Partially competitive services have been adjusted to reflect cost shifts, but no full rate case has occurred since 1997. Telephone operation was sold to NY-based Century Group in transaction that closed May 2005, renamed and reorganized. PUC approval condition PUC required new owners to not file general rate case before 2008.	Formerly Verizon Hawaii. Some of Verizon's rates have been adjusted to reflect cost shifts, but no full rate case has occurred since 1997. Telephone operation was sold to NY-based Century Group in transaction that closed May 2005, renamed and reorganized. PUC approval condition PUC required new owners to not file general rate case before 2008.
	Other				Traditional rate-of-return regulation				
ID	Qwest			Nonindexed price cap: Basic local exchange under five lines. Annual rate increases limited to 10 percent.	Deregulation for all retail service rates except basic local exchange provided to accounts with fewer than five lines.	Not regulated		Qwest petitioned unsuccessfully in 2003 for full rate deregulation in its seven largest Idaho exchanges. Its request in 2004 for statewide basic exchange deregulation through legislature was also unsuccessful. Passage of a state law effective in June 2005 changed basic exchange to customers under five lines from rate-of-return regulation to temporary price caps. Caps will expire in 2006, unless PUC extends them to 2010. After caps expire, basic exchange will be deregulated.	Service deregulation doesn't apply to Qwest's 35,000-line Lewiston service area in northern Idaho, which is under full ROR.
	Other incumbents	ROR		Price Caps on basic exchange services; Deregulation (1999) for all other services	Fully tariffed rate-of-return			Price regulated services: ten days notice for commission and customers; established services: 30 days notice for commission and ten days for customers.	
IL	SBC	Price caps (1995)	None		Caps indexed to GDP-PPI minus 3 percent. Telecom reform law passed in July 2001 changed retail rate structure for residential and single-fleld business customers to require three grades of flat-rate local service be offered at regulated rates.	Price flexibility	Not regulated		Company must meet service quality goals. Telecom reform law passed in July 2001 changed retail rate structure for then Ameritech's residential and single-line business services to require that three grades of flat-rate local service be offered at regulated rates. Law also imposed additional service quality requirements and penalties.
	Other incumbents	ROR			Fully tariffed				
									Telecom reform law passed in July 2001 changed retail rate structure for Verizon's residential and single-fleld business customers, requiring three grades of flat-rate local service. No pending proceedings to change ROR status.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2005) - Continued

State	ILEC	Regime	Expiration Date	Rate Regulation by Type of Service	Earnings Regulation	Infrastructure Requirements	Rate/Service Notice	Other Plan Requirements	Comments
SBC				Nonindexed caps for basic residential and business services to customers below five lines. Prices capped at current rates throughout the term of the agreement. Prices may be decreased at any time provided the lower price exceeds the total TSLRIC of the service plus 10 percent of shared and common costs.	Not regulated	Company must make DSL available to 77 percent of customers by July 2008, with at least 30 percent of new deployment in rural areas.	Tier 1: Decreases could be effective next day after notice to Commt. Tier 2: 45 days advanced notice for changes in Ts and Cs for tier 1 or 2. Within three days of notice, SBC and comrn post details on their websites. If no objections received, change is "deemed approved." Tier 3: Changes effective no earlier than one the day after written notice to comrn.	The SBC Catalog, an informational document, similar in appearance to the tariff, documents the pricing information for tier 3 services.	VZ Catalog pages contain pricing information for the tier 3 services.
IN	Verizon	Price caps (2004-2007)	November 2007	Nonindexed caps for Tier 1 basic residential service.	Not regulated	Company must make DSL available to 75 percent of customers before 2008, with 45 percent of new deployment in rural areas.	Tier 1: A decrease could be effective next day after notice to Commt. Tier 2: 45 days advanced notice for changes in Ts and Cs for tier 1 or 2. Within three days of notice, VZ and comrn will post details of increase on their websites. If no objections received, change is "deemed approved." Tier 3: Effective no earlier than the day after the company's written notice to comrn.	Plan required the elimination of rural zone charges to customers living far from central offices and for Verizon to waive certain nonresidential installation charges for low-income customers by the end of 2004. Verizon was also required to offer DSL as stand-alone product before 2005.	
Sprint		Price caps (2004-2007)	November 2007	Nonindexed caps for all basic residential and small business services.	Not regulated	Cumulative annual increases for vertical services limited to 3.15 percent of annual revenues for services in this basket; services must be priced at least 10 percent above TSLRIC. All other retail services and all service bundles considered competitive and rate deregulated except for floor set at cost plus 10 percent.	Tier 2: Changes effective ten days after tariff filing, as long as they exceed TSLRIC plus 10 percent. 24 hours notice of price change to affected customers. Tier 3: Changes permitted within one days notice.	Plan sets service quality requirements; failing short of standards risks loss of pricing flexibility.	
Other incumbents		Flexible regulation							Harris must be filed and rates are cleared the next day. Other ILECs fall under rate filing requirements for a "rate case".

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2005) - Continued

State	ILEC	Regime	Expiration Date	Rate Regulation by Type of Service		Earnings Regulation	Infrastructure Requirements	Rate/Service Notice	Other Plan Requirements	Comments
				Basic	Other Noncompetitive	Competitive				
Iowa	West, Frontier Communications of Iowa, Iowa Telecom Services (see section)	Price caps (1995)	None	Single-line basic exchange under caps. Rates can rise by \$1 per year residential or \$2 per year business up to a statewide cap of \$19 monthly for residential service and \$38 for business services.	Deregulated (2005)	Not regulated	Iowa Telecommunications' settlement agreement (April 2004) includes a Network Improvement Plan (NIP) as part of a capital investment commitment.	Notice required for increases: 30 days prior to implementation.	The X-Factor (2.5 percent) included in the plan for Qwest. Frontier Communications and Iowa Telecom Services was eliminated by legislation in July 2004. Qwest in 2002 sought full deregulation in certain exchanges on ground those markets were competitive, but petition was denied.	
	Other incumbents	Deregulation (1983)			Deregulated (1983)	Not regulated			In April 2004 Iowa Telecommunications (ITS) entered into a settlement agreement with the IUB and the Consumer Advocate. This settlement agreement included a Network Improvement Plan (NIP) as part of a capital investment commitment. Pursuant to its settlement, ITS agreed not to submit a price plan modification before it has invested approximately \$39 million in its NIP.	
KS	SBC, Sprint	Price caps (1998)	None. Formula reviewed every five years	All services under caps indexed to GDP PI minus X-Factor of Center, Speed Calling, operator services and directory assist. (SBC, 2002).	Not regulated			ROR	For Comm. Review 30 days for all tariff filings.	No pending proceedings to change regulatory situation.
	Other incumbents	ROR		Fully tariffed ROR						

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2001)

State	ILEC	Regime	Rate Regulation by Type of Service			Comments	
			Expiration Date	Basic	Other Noncompetitive	Earnings Regulation	Infrastructure Requirements
BellSouth	Price caps (1995-2009)	None, but periodical reviews. Next review 2009	Basic service rates under caps. Access capped at interstate levels.	Deregulation	Not regulated	30 days notice period for rate changes	No X-Factor included in the price cap formula. In 2004, BLS cap financial review went on without major changes. PSC ordered BellSouth to eliminate rural rate changes by 2006. Wholesale rates set by the Commission.
Cincinnati Bell	Price caps (2004)		Rate freeze through 2006 for some vertical services and specialty business services. After this period, rates can increase up to cap set at double initial rate.	Price flexibility	Not regulated	30 days notice period for rate changes	In 2001, PSC made the Kentucky program identical to Ohio's regulation of Cincinnati Bell, with any future changes by Ohio automatically implemented for the Kentucky operation. The Ohio company switched from company-specific plan to PUC's generic price cap plan for incumbents in 2004. The company in Kentucky adopted Ohio's system in late 2004.
KY	Alltel Kentucky	Price caps (2003)		Pricing flexibility	No earnings review	30 to 60 days notice period, depending on the rate being changed.	Alltel Kentucky was under rate of return until 1998, when it went under a price cap plan pursuant to KRS 278.516. No X-Factor included in the price cap formula.
Other incumbents	ROR		Caps				Seventeen incumbent companies have the option to propose price caps or other alternatives to ROR regulation but only Alltel has done so.
Kentucky Alltel	ROR						Verizon was bought by Kentucky Alltel in August 2002 and was under rate of return at the time. Kentucky Alltel continues under rate-of-return after acquiring Verizon's KY assets. Kentucky Alltel and Alltel Kentucky are two separate companies.
BellSouth	Price caps (1996)						In 2000 plan extended to April of 2004 on condition that BellSouth invest \$1 billion in its local network by making DSL available throughout its service area by 2004. The infrastructure requirements were completed and DSL is available throughout BLS service area.
LA	Other incumbents	Price caps (1997)					When conducting the plan review, the PSC split service quality, universal service and access service into separate dockets.
							The plan was to have expired in April 2004, but the PSC extended it indefinitely in December 2003. Future reviews at PSC discretion.
							State's eleven other incumbents have come under price caps at different times since 1997.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2005) - Continued

State	ILEC	Regime	Expiration Date	Rate Regulation by Type of Service			Earnings Regulation	Infrastructure Requirements	Rate/Service Notice	Other Plan Requirements	Comments
				Basic	Other	Noncompetitive					
ME	Verizon	Price caps (1995-2006)	July 2006	Rate freeze for basic residential and business services; Verizon in 2003 completed series of local rate increases and toll rate cuts stipulated under plan. Productivity offset=4.5 percent.	Price flexibility, except for operator services and directory assistance, which are capped at May 2002 levels.	Competitive			No notice required for ETCS		Plan vacated by state courts in early 2003. In September 2003 the PUC reinstated without change Verizon's price cap plan, approved in June 2001, on public interest grounds. PUC in March 2005 opened docket on successor plan. First phase will determine starting revenue requirement and rates for successor price regulation plan. Proceeding in discovery phase, with initial briefs scheduled for fall 2005.
MD	Other incumbents	ROR		Fully tariffed							Underway rate cases in 2003 to bring interstate access charges down to interstate levels. PUC in June opened investigation into petitions for price-based regulation from Pine Tree Telephone and Saco River Telephone, both County Road Communications affiliates. First phase will address whether to consider alternative regulation; second, specific plans. Schedule not set.
MA	Verizon	Price caps (1996), Revised 2005	None	Rates for basic services capped at current levels until Nov. 23, 2007, then permitted to escalate at the rate of inflation as measured by GNP-PI.	Deregulation		Not regulated				PSC has open docket to consider price cap indexing adjustments for 2002 and 2003, but expanded in 2004 into general review of price cap program. Verizon has proposed deregulation of toll and local business services. Record completed in spring 2005. On Nov. 23, 2005, PSC adopted a settlement agreement (Case Nos. 8745, 8818 and 8937) that increased basic service rates by a modest amount, imposed a subsequent two-year cap and constrained post-cap increases to be no higher than the rate of inflation.
MA	Other incumbents	ROR		Fully tariffed ROR							No pending proceedings to change status
MA	Verizon	Price caps (2003)	None	Basic residential local service and analog private lines under nonindividuated caps.	All other retail services under pricing flexibility. Rates can move anywhere above wholesale floor.		Not regulated				New alternative plan was approved June 2003.
MA	Other incumbents	ROR		Fully tariffed ROR							Four small ILECs. No proceedings pending.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2005) - Continued

State	ILEC	Regime	Expiration Date	Rate Regulation by Type of Service	Basic	Other Noncompetitive	Earnings Regulation	Infrastructure Requirements	Rate/Service Notice	Other Plan Requirements	Comments
SBC	Price caps (1995)	None		Caps indexed to Detroit-area CPI minus 1 percent. Rate cuts presumed competitive and not reviewed.	Deregulation	Not regulated					State law in 2000 amended cap programs to freeze all retail rates of Ameritech and Verizon through 2003 except those in customer-specific contracts, and to abolish state subscriber line charges. Telcos challenged law on constitutional grounds in federal court and won stay. Telecom and SLC provisions, following settlement agreement with state in December 2002 that waived rate freeze and allowed continued billing of state SLC at reduced rate. In August 2005 PSC approved rate deregulation for retail services of all telecom providers in state's 30 largest cities effective late October after customers receive notice. But order has been appealed to state courts.
Verizon	Price caps (1995)	None		Caps indexed to Detroit-area CPI minus 1 percent. Rate cuts presumed competitive and not reviewed.	Deregulation	Not regulated					In November 2005, Governor Granholm signed into law PA 235, which amends the 1991 "Michigan Telecommunications Act" (PA 179). The amended Act, effective Nov. 22, 2005, has new provisions for services that are rate regulated and how they are rate regulated. Changes to be reported in next update.
MI											Incumbents other than SBC and VZ had option of switching from indexed price caps to local rate freeze. Other incumbents obtained deregulation of their intrastate switched access charges and waiver of law's requirements for expanding local calling areas.
Other incumbents	Rate freeze (2000)						switched access charges deregulated				In return for switching from indexed price caps to local rate freeze, other incumbents obtain and deregulation of their intrastate switched access charges and waiver of law's requirements for expanding local calling areas. In August 2005, PSC approved rate deregulation for retail services of all telecom providers in state's 30 largest cities, effective late Oct., after customers receive notice. But order has been appealed to state courts.
WV											In November 2005, Governor Granholm signed into law SB 295, which amends the 1991 "Michigan Telecommunications Act" (PA 179). The amended Act, effective Nov. 22, 2005, has new provisions for services that are rate regulated and how they are rate regulated. Changes to be reported in next update.
Other incumbents											Plan was to have come up for review in 2003, but 2004 state law extended it until Dec. 2005. West and one state are negotiating a new regulatory plan to become effective in 2006. The 2004 law deregulated business rates in three major metropolitan areas.
West	Price caps (1999-2005)	December 2003		Nonindexed caps (local exchange and access), price flexibility (other basic services)	Deregulated (fully competitive services); 2004 law deregulated business rates in three major metropolitan areas	Not regulated		Carries must meet infrastructure investment requirements			Sprint's plan was to have come up for review this fall but Ileco has asked it be extended through 2006 without change.
	Sprint, Frontier Comm's of MN (1996)			None, but plans subject to periodic review	Nonindexed caps	Deregulated (fully competitive services)					Clairnet properties purchased from GTE in 1999. Terms of PUC's purchase approval order barred company from seeking alternative regulation for three years, but that provision expired in August 2002. Company has not proposed any alternative regulation option.
MN	Citizens Telecom (formerly GTE)	ROR					Fully ratified ROR				Other incumbents, all with fewer than 50,000 lines, can self-select flexible pricing system. Study services or 83 eligible small incumbents have opted for flexible pricing program.
Other incumbents (under 50,000 lines)		Price flexibility	None				Allowed to price basic services to providers, unless greater of \$50 or 5 percent of marketplace seek PUC review of rate change.	Deregulated (fully competitive)	Not regulated		

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2005) - Continued

State	ILEC	Regime	Expiration Date	Rate Regulation by Type of Service			Earnings Regulation	Infrastructure Requirements	Rate/Service Notice	Other Plan Requirements	Comments
				Basic	Other Noncompetitive	Competitive					
MS	BellSouth	Price caps (1998-2007)	2007	Rate freeze. Access capped at interstate rates.	Service rates can increase up to 20 percent per year; the increase can be made up of smaller increases throughout the year rather than a single one annually.		Not regulated	In 2001 company completed network upgrades in its most complaint-prone exchanges.			In June 2004, PSC completed midcourse review of program, and changed standards for appointment and repair timeliness. PSC requires for 77 percent of trouble reports to be repaired within 36 hours, rather than 60 percent of troubles fixed the same day. On-time appointment keeping was raised from 80 percent to 90 percent.
	Other Incumbents	ROR			Fully Billed						No pending proceedings to change status
SBC, Sprint, Century Tel, Spectra Century		Price caps (1997)									
MO	Other Incumbents	ROR									

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2005) - Continued

State	ILEC	Regime	Expiration Date	Rate Regulation by Type of Service			Earnings Regulation	Infrastructure Requirements	Rate/Service Notice	Other Plan Requirements	Comments
Owest	ROR			Rate-of-return regulation. Owest can request pricing flexibility to match local competitors' rates in exchanges where competitors operate, but earnings still count in rate-of-return calculations. Owest also can request full deregulation of services that are subject to effective local competition.			Earnings still count in ROR calculations			PSC initiated a docket requiring Owest to file information on its rate of return in July 2003. PSC stated company reports indicated substantial overearnings. Carrier appealed to state courts, claiming PSC exceeded statutory authority by initiating rate case imposing burden of proof onto Owest, not the agency. Lower court sided with Owest, but the PSC appealed further. Case is pending.	
MT	Rural telephone coop	Not subject to PSC regulation		Deregulated			Investor-owned incumbents under 12,000 lines have full pricing flexibility but earnings still count in ROR calculations.			All incumbents have option to petition for alternative forms of regulation but none have done so.	
NE	All incumbents	Deregulation	ROR							All incumbents have option to petition for alternative forms of regulation but none have done so.	
NH											
NE	All incumbents	Deregulation									
Sprint	Price caps (1995-2007)		June 2007								
NV	SBC	Price caps (1997-2008)	Mid-2006								
Other incumbents	ROR						Fully tariffed ROR				
NH	All	ROR									

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2005) - Continued

State	ILEC	Regime	Expiration Date	Rate Regulation by Type of Service		Earnings Regulation	Infrastructure Requirements	Rate/Service Notice	Other Plan Requirements	Comments
				Basic	Other Noncompetitive	Competitive				
NJ	Verizon	Price caps (2005)	None	Statewide basic residential and business caps restructured in 2005, (fixed at \$8.95 [residential] and \$15.00 [business]).		Business rates for customers with two or more lines deregulated. Other competitive service rates deregulated.	Verizon must invest \$55 million for advanced services to public schools and libraries. 2005 restructured plan continued this requirement.		Restructured plan continues service quality commitments of the 2002 plan, as well as requirement for Verizon to provide discounted rates for high-speed internet access for public schools and libraries until 2014.	
	Other incumbents	ROR			Fully-tariffed ROR					No current proceedings to change situation.
NM	Qwest, Valor Telecom	Price caps (2001-2005)	Review scheduled for 2005	Nonindexed caps. A 2004 state law requires that, starting in 2006, Valor's cap program must include some form of indexing for adjusting caps.		Qwest - Nonbasic services capped at average rates in Qwest's 14-state home region. Valor - can raise nonbasic rates up to 5 percent annually.	Deregulated	Not regulated	Qwest and Valor's plans include service quality requirements.	Qwest - Was entitled to 10 percent boost in September 2003 if it was on schedule with investment requirements. In July 2004 the PRC opened docket to determine whether Qwest is on schedule to meet network investment commitment. In September 2004, the PRC decided to allow Qwest to make a case before a PRC hearing officer to include the company's wireless network investment as part of the \$178 million investment agreement included in the regulatory plan. In early 2005, staff concluded Qwest would fall \$288 million short of investment commitment and suggested sanctions. Qwest requested more time or reduced investment requirement and appealed to state and federal courts. Moller, is pending.
NY	Other incumbents (fewer than 50,000 lines)	Deregulated				Basic residential rate increases subject to regulatory review if increases affect 2.5 percent of ratepayers or if PRC staff protests.				Deregulation occurred in 1999 by state law. Decision on rate increases required within 60 days of hearing. Companies must give 60 days' notice of basic residential rate increases.
	Verizon	Tariff regulation (2004)		Unil V2 or PSC initiates proceeding for new regulatory program		Rates can be changed by tariff, but only if Verizon can justify.	Price flexibility			Previous plan expired in March 2004, when Verizon defaulted to basic form of tariff regulation. No proceedings to change current status.
	Frontier Telephone of Rochester	ROR (2005)				Fully tariffed ROR				Price cap plan expired at the end of 2004, when Frontier defaulted to fully tariffed ROR.
	Other incumbents	ROR				Fully tariffed ROR				No current proceedings to change status.

Sources: *State Telephone Regulation Report, August-September 2005*, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2005) - Continued

State	ILEC	Regime	Expiration Date	Rate Regulation by Type of Service		Earnings Regulation	Infrastructure Requirements	Rate/Service Notice	Other Plan Requirements	Comments
				Basic	Other Noncompetitive	Competitive				
BellSouth	Price caps (2005)	None		Rates can rise up to 10 percent, subject to revenue cap for basic basket equal to 1.5 times annual GDP-PI.		Deregulated	Not regulated			Cap plan adopted in April to replace expired 1986 plan. Effective December 2005, all BellSouth business services will be classified as competitive -- except basic exchange and installation, classified competitive in December 2006.
Verizon	Price caps (2005)			Rates can rise up to 10 percent subject to basic basket revenue cap of 1.5 times annual GDP-PI.		Deregulated	Not regulated			Verizon is under a cap system similar to BellSouth's. New cap plan adopted in spring 2005.
Sprint (i.e., Carolina Telephone and Central Telephone Company)	Price caps (2005)			Rates can rise up to 10 percent subject to basic basket revenue cap of 1.5 times annual GDP-PI.		Deregulated	Not regulated			Sprint is under a cap system similar to BellSouth's. New cap plan adopted in Spring 2005.
NC				Rates can rise up to 12 percent subject to basic basket revenue cap of 2.5 times annual GDP-PI.		Deregulated	Not regulated			
Other incumbents	Price caps (1997-1999)	None		Caps indexed to GDP-PI minus 2 percent. Rate element constraint equal to GDP-PI plus 3 percent. X-Factor for basic service=2 percent		Service-specific caps for most other services grouped in baskets. Productivity offset for interconnection and non-basic Category 1-2 percent	Not regulated			
ROR (1996)		None								
Owest	Price caps (2003)	None				Nonindexed caps (residential flat-rate basic exchange on primary line and switched access). Rate decreases allowed, but no increases except when government action increases service costs.	Price flexibility Business basic exchange and additional residential lines were removed from nonindexed caps (August 2005).	Not regulated		Owest new cap system became effective Aug 1, 2003, replacing an older indexed cap system dated back to 1993.
ND	North Dakota Telephone	ROR					Fully tariffed ROR			No current proceedings to change status.
Other incumbents	Deregulation									

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TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2005) - Continued

State	ILEC	Regime	Rate Regulation by Type of Service			Comments						
			Expiration Date	Basic	Other Noncompetitive							
OH	SBC, Sprint, CenturyTel, Chillicothe Horizon, Western Reserve	Price caps (2002)	Name	Indefinite rate freeze for basic local service and basic carrier ID services at the existing rates when adopting the plan.	Two-year rate freeze for certain vertical services and specifically business services from effective date of each individual telco's plan and then can increase up to double initial rate.	Pricing flexibility for all other retail services	Not regulated	Telcos must meet company-specific commitments for expanded availability of advanced services.	Companies must offer enhanced changes in terms and conditions of no more than 30 days.	Companies opted for generic alternative price regulation framework; PUC adopted in April 2002.	CBT denied for the generic alternative price regulation plan in 2004.	
OK	Cincinnati Bell	Price caps (2004)	Name	Indefinite rate freeze for basic local service and basic carrier ID services at the existing rates when adopting the plan.	Two-year rate freeze for certain vertical services and specifically business services from effective date of each individual telco's plan and then can increase up to double initial rate.	Pricing flexibility for all other retail services	Not regulated	Telcos must meet company-specific commitments for expanded availability of advanced services.	Companies must offer enhanced changes in terms and conditions of no more than 30 days.	CBT denied the PUC for waiver of plan's lifetime service so it can keep two different lifetime options from previous competition-specific regulation program. Petition pending; decision expected soon.	CBT asked the PUC for waiver of plan's lifetime service so it can keep two different lifetime options from previous competition-specific regulation program. Petition pending; decision expected soon.	
OR	Other incumbents	ROR	N/A	Traditional or streamlined ROR	N/A	N/A	N/A	SBC committed to invest in upgrading its facilities to provide DSL in all its central offices in OK within two years from the date of the order. SBC committed to install DSLAMs or a technological equivalent, in 68 central offices not containing this technology yet. In 46 of those offices (classified as rural offices within SBC's Rate Groups 1-3), SBC shall ensure access through broadband or DSL to all K-12 public schools and hospitals.	Regulators in July 2005 approved new regulation plan that would allow SBC to set retail rates at any point above cost floor except in rural areas where local rate increases were limited to \$2 per year. Order required SBC to expand DSL availability in rural areas. Order was stayed pending outcome of CLEC appeals to state Supreme Court, where case is pending.	36 other incumbent companies have the choice of opting into PUC's generic alternative cap system or proposing company-specific alternative regulation plan.	Regulators in July 2005 approved new regulation plan that would allow SBC to set retail rates at any point above cost floor except in rural areas where local rate increases were limited to \$2 per year. Order required SBC to expand DSL availability in rural areas. Order was stayed pending outcome of CLEC appeals to state Supreme Court, where case is pending.	
WA	SBC	Price caps (1999-2005)	N/A	For basket 3, pricing flexibility. Switched access, E-911 and payphone access under pricing flexibility equal to change in inflation minus 1 percent.	For basket 3, if the competitive test is met then pricing flexibility is capped at 12 percent per year. If the competitive test is not met then pricing flexibility is equal to the change in inflation -1 percent. Both scenarios fall under 30-day notice and regulatory review.	Pricing flexibility for all services in Basket 4, per PUD 2004-0042. All of SBC's services, other than those included in Basket 3, are now in Basket 4.	Not regulated	SBC committed to invest in upgrading its facilities to provide DSL in all its central offices in OK within two years from the date of the order. SBC committed to install DSLAMs or a technological equivalent, in 68 central offices not containing this technology yet. In 46 of those offices (classified as rural offices within SBC's Rate Groups 1-3), SBC shall ensure access through broadband or DSL to all K-12 public schools and hospitals.	System originally applied only to incumbents with fewer than 75,000 lines, but in 2004 law applied it to all incumbents but SBC. Carriers with greater than 75,000 lines are treated like current SBC (all reg).	Carriers can lower its rates for all services without prior approval. Carrier allowed to change rates on short notice in competitive markets.	Carriers' price cap plan comes under the statute ORS 759.400 through ORS 759.410.	Under ORS 759.400 et seq., which is an opt-in plan available to the larger companies. Carriers have the ability to lower rates without prior approval. Alternatives to request rate cap regulation. Alternatives to rate of return regulation also available under ORS 759.195 and ORS 759.255.
WV	Other incumbents	Streamlined ROR	N/A	Monthly basic exchange rates can rise by up to \$2 annually but boosts are subject to investigation and possible roll back if 15 percent of customers protest.	Rate freeze residential and small business basic exchange, PBX trunks, and payphone access services, except for cash-pooling rates charges.	All other services under non-indexed caps.	Not regulated	Carriers have the ability to lower rates without prior approval in most of their exchanges under ORS 750.050.	Carriers have the ability to lower rates without prior approval in most of their exchanges under ORS 750.050.	Carriers have the ability to lower rates without prior approval in most of their exchanges under ORS 750.050.	Carriers have the ability to lower rates without prior approval in most of their exchanges under ORS 750.050.	
WY	Qwest	Price caps (2000)	N/A	Rate freeze residential and small business basic exchange, PBX trunks, and payphone access services, except for cash-pooling rates charges.	Fully tariffed ROR.	Companies can request right to change rates on short notice in competitive markets and have done so for most of their exchanges.	Earnings still count in ROR calculations.	Carriers have the ability to lower rates without prior approval in most of their exchanges under ORS 750.050.	Carriers have the ability to lower rates without prior approval in most of their exchanges under ORS 750.050.	Carriers have the ability to lower rates without prior approval in most of their exchanges under ORS 750.050.	Carriers have the ability to lower rates without prior approval in most of their exchanges under ORS 750.050.	
WY	Verizon, Sprint, Century Tel	ROR	N/A	Deregulation	Fully tariffed ROR.	Companies can review rate changes if the lower of 10 percent of affected ratepayers petition for review.	Earnings still count in ROR calculations.	Carriers have the ability to lower rates without prior approval in most of their exchanges under ORS 750.050.	Carriers have the ability to lower rates without prior approval in most of their exchanges under ORS 750.050.	Carriers have the ability to lower rates without prior approval in most of their exchanges under ORS 750.050.	Carriers have the ability to lower rates without prior approval in most of their exchanges under ORS 750.050.	

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TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2005) - Continued

State	ILEC	Regime	Expiration Date	Rate Regulation by Type of Service	Earnings Regulation	Infrastructure Requirements	Rate/Service Notice	Other Plan Requirements	Comments
PA	All incumbents	Price caps (2002)	None	Indexed caps	Price flexibility	In December 2003, North completed within the allotted time a total of \$2.7 billion in infrastructure investment requirements imposed by the PUC's 1998 local competition order and Bell Atlantic-GTE merger decisions.	Not regulated		All incumbent telcos moved under price based regulation in 2002 under state law known as Chapter 30, although some had been under individual cap plans earlier. While there are some differences in plan details for individual telcos, all these plans are similar in general outline. Although Chapter 30 statute expired at end of 2003, price caps implemented under it didn't terminate with law's end. Verizon in 2003 sought rate deregulation of all retail business services but was denied.
RJ	Verizon	Price caps (2003-2005)	2005	Revenue-neutral rate rebalancing permitted.					Plan expired in December 2005, PUC opened docket on successor plan; Verizon filed proposal in September 2005.
BellSouth	Price caps (1999)	None		Residential rates under nonindexed caps that will increase by \$1 per line in 2003 and another \$1 in 2004, which Verizon has made. PUC must review any other proposed increases in residential rates.	Nonindexed caps	Other services flexibly priced, except that the cumulative effect of all rate changes for all other services can't increase total revenue more than 5 percent per year. Rate deregulation for all retail service bundles offered by price-regulated incumbents, regardless of services comprising bundle.	Not regulated		2005 state law deregulated rates for all retail service bundles offered by price-regulated incumbents, regardless of services comprising bundle.
Sprint, Verizon Other incumbents	Price caps (1999)	None			Caps indexed to CPI	Other services flexibly priced, except that the cumulative effect of all rate changes for all other services can't increase total revenue more than 5 percent per year. Rate deregulation for all retail service bundles offered by price-regulated incumbents, regardless of services comprising bundle.	Not regulated		Sprint went under caps in 1989 and Verizon in 2000. 2005 state law deregulated rates for all retail service bundles offered by price-regulated incumbents, regardless of services comprising bundle.
SC	ROR				Basic residential and business services capped at statewide average rates.	Price flexibility, subject to revenue cap for competitive basic equal to 5 percent annually.			Eleven companies have opted for this system.
SD	Owest	Deregulation (2003)	None		Fully tariffed ROR	Other nonbasic under caps indexed to national CPI.			Carriers can petition for switch to price caps or other alternative forms of regulation. Eleven opted to do so in 2005.
SD	Other incumbents	Deregulation (1987)				Rates for all retail services deregulated	Not regulated		Qwest's price cap plan (1986) was eliminated after the carrier won statewide rate deregulation from PUC in October 2003 based on competition.
									Rate deregulation of other incumbents approved by state law in 1987. State law allows deregulation if majority of company's ratepayers petition for it, but that power hasn't been used to date.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2005) - Continued

State	ILEC	Regime	Expiration Date	Rate Regulation by Type of Service			Earnings Regulation	Infrastructure Requirements	Rate Service Notice	Other Plan Requirements	Comments
TN	BellSouth, Sprint, Citizens Telecom	Price caps (1996)	None	Caps indexed to lesser of one-half GDP-PI or GDP-PI minus 2 percent. 2005 state law deregulated retail rates for business services and customer-specific service contracts of price-regulated incumbents.	Competitive	Not regulated					Cap system prescribed by state law and changes would require act of legislature. Rate changes exceeding caps allowed as part of revenue-neutral rate rebalancing, expansion of local calling areas or rate group changes.
	Other incumbents	ROR		Fully tariffed ROR							State law allows them to petition for the same price cap system as the large incumbents or propose alternative form of regulation, but to date none have chosen to do so.
TX	All incumbents	Price caps (1999-2007)	2007	Nonindexed caps (residential basic, 911, Lifeline and carrier access)	All other services freely priced, except for ban on below-cost pricing. Infrastructure access charges to be reduced to interstate levels.	Not regulated					Old cap system will continue for telcos electing to stay with it.
	Qwest	Price caps (2005)		Nonindexed caps for residential basic exchange, Service capped at current rates through 2007.	Deregulated	Not regulated					A 2005 state law replaced the price cap regime established in 1997. Previous price cap system allowed Qwest to petition for full rate deregulation in markets where competitors operate. Qwest won significant local retail rate deregulation in the state's major cities in 2004 and 2005 because of competition in the more populated areas, covering 85 percent of total business lines and 50 percent of residential lines.
UT	Other incumbents (fewer than 30,000 lines)	Streamlined ROR (1997)		Streamlined ROR							After 2007 PSC must lift residential cap in exchanges where local competitors offer residential basic exchange.
	Verizon	Price caps (2005-2008)		Nonindexed caps for all services. Caps set at levels prevailing in April 2005. \$8.18 million in retail rate reductions at the outset of the plan. Rate reductions can be offset by increased broadband rollout.	Price flexibility for new services.	Not regulated					A 2005 state law allows state's nine other incumbents to increase rates 9 percent total over three years without rate cap. Carriers can seek additional increases from regulators to cover external cost increases such as tax hikes or weather disasters.
VT	Other incumbents	Streamlined ROR (2005)									Law sunset in July 2008.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2005) - Continued

State	ILEC	Regime	Expiration Date	Rate Regulation by Type of Service	Earnings	Regulation	Infrastructure Requirements	Rate Service Notice	Other Plan Requirements	Comments
VA	Verizon VA	Price caps (2005)	None	Rates capped at 1994 levels, adjusted annually. Nonbasic rates can rise up to 10 percent the first year as measured, and additional 1 percent each additional year by GDP-PI. The \$15.46 residential group rate is can be sought at any time, providing no single increase exceeds the lesser of 25 percent or the basic-service rate cap, and providing at least a year has passed since the last rate increase. Price cuts are subject to cost floor. Services other than basic will not have a ceiling. Tariffed Bundled Services can be offered upon notification to the Commission.	Not regulated					Verizon new price cap plan is Case PUC-2004-00092. Verizon is required to continue filing tariffs with the SCC's Division of Communications for its basic and competitive services. Final decision available at: http://fcc.virginia.gov/netsatl/orderr/cb40092_Final.pdf .
WA	Verizon South	Price caps (2005)	None							Verizon South is the former GTE maintained as separate Verizon affiliate. Verizon South is under a regulation plan identical to that of Verizon Va.
	Sprint Telcos	Price caps (1995)	None	Caps indexed to one-half GDP-PI.	Discretionary services indexed to GDP-PI.	Price flexibility	Not regulated			Carrier hasn't filed for any changes in response to 2004 law that bars below-cost service pricing.
	Other incumbents	Deregulation (2000)				Rates of investor-owned small telcos are partly deregulated by statute. Telecom cooperatives are rate deregulated.				Felcos are free to move rates up or down in response to markets, as long as increases are advertised and excessive complaints are not received by the SCC.
WA	All incumbents	ROR								State law allows incumbents to petition for alternative regulation but no petitions were pending in 2005. In March 2006 Qwest expressed an interest in negotiating an AFOR plan with the WUTC. The WUTC is organizing a process that would include all interested parties in those discussions. Qwest operated under earnings-based incentive plan until 1994, when it reverted to rate-of-return regulation. In April 2005 Verizon settled a rate case requesting \$240 million increase; the company only received \$38.6 million.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2005) - Continued

State	ILEC	Regime	Expiration Date	Rate Regulation by Type of Service	Earnings Regulation	Infrastructure Requirements	Rate/Service Notice	Other Plan Requirements	Comments
WV	Verizon	Incentive regulation (1994-2005)		Vertical services allowed to rise by rate of inflation (GDP-PI)	Deregulated	Earnings suspended, but not eliminated		Program was extended in 2001 for four years on condition that Verizon invest \$375 million in network by 2005.	No rate case during program. Verizon in 2004 received approval to add several business digital data services (digital data services, primary rate ISDN service, frame relay and asynchronous transfer mode services, transparent LAN services and speed dialing) to deregulated list. Plan expires at year-end 2005. PSC staff and Verizon planned to meet in August 2005 to discuss extension or replacement of plan.
	Frontier Comm.	Incentive regulation (1994-2012)		Vertical services allowed to rise by rate of inflation (GDP-PI)	Basic rates capped	Company can request rate deregulation		Extension order requires Frontier to invest a minimum of \$35 per access line per year in infrastructure (equivalent to \$116 million over next seven years).	No rate case during program. PSC extended the program in May 2005 until end of 2012. Frontier is business name for Citizens Telecom.
	Other incumbents	ROR		Fully tariffed ROR					No pending proceeding to change current status.
WI	SBC	Price caps (1994)		Price flexibility, small business (one-three lines) removed from price regulation in 2004.	Not regulated	Residential service in urban and suburban areas removed from price regulation in 2005.		Notice period required varies from 0 to 50 days, depending on the type of regulation and whether the change is a rate increase or decrease. Level of PSC review also varies with these same factors.	Program continued without major change after 1999 review. Future reviews at PSC discretion. No plans for full-scale review of cap program.
	Verizon	Price caps (1995)		Caps indexed to GDP-PI minus 3 percent, + or - 2 percent for infrastructure and service quality performance. The 3 percent X-factor and 2 percent incentive/punitary applies to companies with more than 500,000 access lines.	None				Program continued without major change after 1999 review. Future reviews at PSC discretion. No plans to conduct one.
	Other incumbents	Flexible regulation		Caps indexed to GDP-PI minus 2 percent, + or - 1 percent for infrastructure and service quality performance. The 2 percent X-factor and 1 percent incentive/punitary applies to companies with less than 500,000 access lines.	None				
WY	All incumbents	Rate review (2003)		Cost-based pricing flexibility. Rates must stay above TSI/RIC cost floor.	None		Not regulated	Basic res and bus local exchange and switched access: 30 days. Non-essential services: one day.	An incumbent that prices basic local service above statewide benchmark rate of \$23.10 monthly may face review if its state universal service support.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 4
DETAIL OF STATE RETAIL RATE REGULATION OF COMPETITIVE LOCAL EXCHANGE CARRIERS
(AS OF SEPTEMBER 2005)

State	Type of Regulation	Rates Presumed Competitive	State Certification Requirement	Tariff Filing	Rate Change Notice	Review of Rate Changes	Other Requirements
AL	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	Yes (no term provided)	All changes receive regulatory staff review but normally aren't questioned.	
AK	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	30 days	All changes receive regulatory staff review but normally aren't questioned.	
AZ	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	30 days	All changes receive regulatory staff review and major changes may be subject to hearings; minor changes generally aren't questioned.	A 2001 state Supreme Court ruling gave state regulators full discretion to decide how to apply concept in fair value of assets and how to setting CLEC rates. Fair value issues are decided case by case as CLECs file tariffs for new services and rate changes.
AR	Rates not reviewed	Yes	Yes (technical, financial and managerial competence)	Yes	30 days	Changes are not normally reviewed.	All CLECs are required to contribute to state universal service fund regardless whether they are eligible to receive subsidies from fund.
CA	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	30 days for rate increases, five for reductions and 30 days for changes to terms and conditions	All changes receive regulatory staff review but normally aren't questioned.	
CO	Rates flexibly regulated	Yes (except that residential basic exchange can't exceed \$14.74 statewide cap set by state law for all providers).	Yes (technical, financial and managerial competence; affidavit presumed truthful)	CLECs at start of service have option to file tariffs or price lists.	30 days' notice for rate increases, 14 days for decreases.	All tariff or price list changes receive regulatory staff review but normally aren't questioned unless basic residential rate cap is exceeded on a standalone or bundled packaged basis.	Financial assurance bond or letter of credit may be required when a new provider enters the market. Payment to the Colorado High Cost Support Mechanism (CHCSM) and other applicable funds is required. CLECs can opt into alternative regulatory program applied to Qwest (see 2005 change).
CT	Rates not reviewed		Yes (technical, financial and managerial competence).		Advanced filing notice to the Department for rate and service changes are the same for CLECs and ILECs. A tariff filing for a competitive service may be effective on five days advanced written notice.	All changes receive regulatory staff review but normally aren't questioned.	

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 4
DETAIL OF STATE RETAIL RATE REGULATION OF COMPETITIVE LOCAL EXCHANGE CARRIERS
(AS OF SEPTEMBER 2005) - Continued

State	Type of Regulation	Rates Presumed Competitive	State Certification Requirement	Tariff Filing	Rate Change Notice	Review of Rate Changes	Other Requirements
DE	Cost-based rate floor	Yes (so long as they exceed floor set at incremental cost).	Yes (technical, financial and managerial competence). Must post \$10,000 performance bond.	Yes (either tariffs or price lists)	Three days	Rate changes above cost floor normally get no further review.	
DC	Rates not reviewed	Yes	Yes (technical, financial and managerial competence).	Yes	Yes (no term provided)	Changes are not normally reviewed.	
FL	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence).	Yes	One day	Changes are reviewed for administrative accuracy, clarity, and similar treatment of similarly situated customers.	
GA	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence).	Yes	30 days for increases and new services and seven days for decreases.	All changes receive regulatory staff review.	
HI	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	30 days for partially competitive and noncompetitive services; rate changes for fully competitive services effective upon filing	All changes receive regulatory staff review but normally aren't questioned.	
ID	Rates not reviewed	Yes	Yes (technical, financial and managerial competence)	Yes (price lists)	Ten days	Changes are not normally reviewed.	
IL	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	One day	Initial tariffs for new entrants or new services receive regulatory staff review. Tariff changes take effect without regulatory review.	CLEC's in state universal service fund are subject to fund's rate benchmarking rules.

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TABLE 4
DETAIL OF STATE RETAIL RATE REGULATION OF COMPETITIVE LOCAL EXCHANGE CARRIERS
(AS OF SEPTEMBER 2005) - Continued

State	Type of Regulation	Rates Presumed Competitive	State Certification Requirement	Tariff Filing	Rate Change Notice	Review of Rate Changes	Other Requirements
IN	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes and required to keep them updated	Rates are effective upon receipt. Notice to affected consumers is not required.	All tariff filings are reviewed by Telecom Division staff to ensure their consistency with statutes, procedures and orders.	CLECs must provide the Commission with a link to the CLEC website where the tariff can be found by consumers
IA	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	30 days' notice of rate increases and 15 days' notice for decreases.	All changes receive regulatory staff review but normally aren't questioned.	CLEC local calling areas are supposed to coincide with incumbent's, but CLECs can petition for waiver.
KS	Rates not reviewed	Yes	Yes (technical, financial and managerial competence)	Yes	One day for rate changes; seven days for rules and regulations.	Changes to rules and regulations for service receive regulatory staff review for consistency with Billing Standards and Commission Rules. Rate changes are accepted for filing.	If a CLEC wants to take deposits it must have: 1) three years of positive financials, or 2) provide a surety bond of \$25,000.
KY	Rates flexibly regulated	Yes	CLECs must register with PSC	Yes	15 days (rates and service changes)	All changes receive regulatory staff review but normally aren't questioned.	
LA	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	10-30 days, depending on nature	All changes receive regulatory staff review but normally aren't questioned.	
ME	Rates not reviewed	Yes	Yes (technical, financial and managerial competence)	Yes	25 days for increase; no notice required for decrease	Changes are not normally reviewed. Confirm notice as appropriate.	
MD	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	30 days	All changes receive regulatory staff review but normally aren't questioned.	
MA	Rates not reviewed	Yes	CLECs must register with Dept. of Telecom and Energy	Yes	30 days	Changes are not normally reviewed.	

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 4
DETAIL OF STATE RETAIL RATE REGULATION OF COMPETITIVE LOCAL EXCHANGE CARRIERS
(AS OF SEPTEMBER 2005) - Continued

State	Type of Regulation	Rates Presumed Competitive	State Certification Requirement	Tariff Filing	Rate Change Notice	Review of Rate Changes	Other Requirements
MI	Rate flexibly regulated	Yes (initial rates)	Yes (state license; need to show technical, financial and managerial competence, statements presumed truthful) Must begin service within two years of receiving license.	Yes (no term provided)	Notice required. Rate reductions and limited-duration promotional rates take immediate effect.	All rate increases receive regulatory staff review but normally aren't questioned so long as rate remains below incumbent's. Rate reductions and limited-duration promotional rates not reviewed.	State law in 2000 gave CLECs option of accepting rate freeze in return for deregulation of intrastate access charges and waiver of legal requirements to expand local calling areas, but no CLEC exercised that option. In August 2005, PSC approved rate deregulation for retail services of all telecom providers in state's 30 largest cities, effective late October, after customers receive notice. But order has been appealed to state courts. Regulation of CLECs may be affected by December 2005 Michigan Telecom sunset and legislature's response.
MN	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	Yes, notice period depending on type of change.	All changes receive regulatory staff review but normally aren't questioned.	
MS	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	30 days	All changes receive regulatory staff review but normally aren't questioned.	
MO	Rates flexibly regulated	Yes (except for access charges, which are capped at incumbent's rate).	Yes (technical, financial and managerial competence)	Yes	Ten days for increases and one day for reductions.	All changes receive regulatory staff review but normally aren't questioned.	
MT	Rates not reviewed	No determination of market competitiveness is made.	CLECs must register online with PSC. No certification is required.	Not required	n/a	n/a	CLECs rates are not regulated. CLECs must comply with PSC's telecommunications service rules.
NE	Rates not reviewed	Yes	Yes (technical, financial and managerial competence)	Yes	Basic local service rate increase: 90 day notice. Rate increases for other services: ten day notice.	New services and changes to terms other than price receive regulatory staff review but normally aren't questioned. Rate changes aren't reviewed except if basic exchange increase exceeds 30 percent.	
NV	Rates not reviewed	Yes	Yes (technical, financial and managerial competence)	Must file lists with terms and conditions of service but not rates. CLEC rates deregulated and don't have to be filed.	Not required. Changes to rates can take effect immediately.	Changes to terms normally aren't reviewed.	

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 4
DETAIL OF STATE RETAIL RATE REGULATION OF COMPETITIVE LOCAL EXCHANGE CARRIERS
(AS OF SEPTEMBER 2005) - Continued

State	Type of Regulation	Rates Presumed Competitive	State Certification Requirement	Tariff Filing	Rate Change Notice	Review of Rate Changes	Other Requirements
NH	Rates not reviewed	Yes	Yes (register with PUC, attest to competence to serve and lack of criminal record)	Yes (price schedules)	14 days	Changes are not normally reviewed.	CLECs may adopt a model tariff or file a rate sheet which would be considered reasonable unless there is a customer complaint.
NJ	Some rates regulated	Yes (except for basic exchange, vertical services and switched access that cannot exceed Verizon's rates without cost justification).	Yes (technical, financial and managerial competence)	Yes	One day for reductions, five days for increases.	First tariffs presumed competitive. Subsequent increases in rates for basic exchange, vertical services & switched access require cost justification. For other services, rate changes normally not reviewed.	
NM	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	30 days	All changes receive regulatory staff review but normally aren't questioned.	
NY	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	30 days	All changes receive regulatory staff review but normally aren't questioned.	
NC	Rates not reviewed	Yes	Yes (technical, financial and managerial competence)	Not required	N/A	Changes normally aren't reviewed.	
ND	Rates not reviewed	Yes	Yes (facilities-based CLECs—technical, financial and managerial competence); local resellers register with PSC and attest to their competence to serve; affidavits presumed truthful.	Yes		Not required. Changes to rates take effect immediately.	Changes normally aren't reviewed.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 4
DETAIL OF STATE RETAIL RATE REGULATION OF COMPETITIVE LOCAL EXCHANGE CARRIERS
(AS OF SEPTEMBER 2005) - Continued

State	Type of Regulation	Rates Presumed Competitive	State Certification Requirement	Tariff Filing	Rate Change Notice	Review of Rate Changes	Other Requirements
OH	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes (with maximum prices for basic local, certain vertical services and specialty business services).	Rate changes below maximum band take immediate effect; changes outside rate band or changes to band limits require 30 days' notice.	Rate changes within rate band are not reviewed; changes outside rate band or changes to band limits receive regulatory staff review.	CLECs also have option of switching to generic price cap regulation system adopted for incumbents, but none have done so.
OK	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	20 days	All changes receive regulatory staff review.	
OR	Rates not reviewed		Yes (technical, financial and managerial competence)	Tariffs or price lists not required.	Not required. Changes to rates take effect immediately.	Changes to rates and services aren't reviewed.	
PA	Rates flexibly regulated	Yes (so long as they are at or below incumbent's rates).	Yes (technical, financial and managerial competence)		One day for reductions and rates priced at or below ILEC rates; 30 days for increases and when priced above ILEC rates.	All changes receive regulatory staff review but normally aren't questioned. When rates are higher than the ILEC, the Commission may request cost support and justification.	Tariff filings for rate changes must also be filed with statutory public advocates. CLEC tariffs are required to contain residential rates and services, including Lifeline and Link-up, irrespective of whether the CLEC intends to serve residential consumers. A December 2004 state law capped CLEC access charges at incumbents' level and freed CLECs from Lifeline and residential service obligations unless they are receiving federal universal service subsidies. CLECs are also required to mirror the ILEC local calling area as a starting point.
RI	Rates not reviewed	Yes	Yes (technical, financial and managerial competence)	Yes	30 days	All changes receive regulatory staff review, but changes normally aren't questioned.	
SC	Rates not reviewed	Yes (for CLECs that choose "presumptively valid" tariffing status)	Yes (technical, financial and managerial competence). Certified CLECs must seek "presumptively valid" tariffing status to receive minimal regulation.	Yes	CLECs that don't seek presumptively-valid status must give 30 days' notice of tariff changes; those that have valid status required 14 days' notice for increases or new services, and five days' notice for reductions.	For CLECs that don't seek presumptively-valid status must give 30 days' notice of tariff changes; those that have valid status required 14 days' notice for increases or new services, and five days' notice for reductions.	All CLECs have chosen presumptively-valid status.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 4
DETAIL OF STATE RETAIL RATE REGULATION OF COMPETITIVE LOCAL EXCHANGE CARRIERS
(AS OF SEPTEMBER 2005) - Continued

State	Type of Regulation	Rates Presumed Competitive	State Certification Requirement	Tariff Filing	Rate Change Notice	Review of Rate Changes	Other Requirements
SD	Rates not reviewed	Yes	Yes (technical, financial and managerial competence)	Yes	Yes (rates and services; no term provided)	Changes normally aren't reviewed.	
TN	Rates not reviewed	Yes	Yes (technical, financial and managerial competence)	Yes	14 days for rate increases, while reductions take immediate effect.	Rate changes are reviewed for compliance with TRA rules.	Notice period is pursuant to TRA 1220-4-8-07(2)
TX	Rates not reviewed	Yes	Yes (technical, financial and managerial competence)	Yes	Not required. Changes to rates take effect immediately.	Changes normally aren't reviewed.	
UT	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes (price lists)	Five days	All changes receive regulatory staff review but normally aren't questioned.	
VT	Rates flexibly regulated	Yes (except for operator services that are capped at Verizon's rate).	Yes (technical, financial and managerial competence)	Yes	45 days for increases, five days for reductions.	All rate changes receive regulatory staff review but normally aren't questioned.	PSB considering rule changes to lighten CLEC regulation.
VA	Some rates regulated	Rates capped at incumbent's rate unless regulator waiver obtained.	Yes	Yes	30 days for rate increases; decreases take effect next day	Rate decreases normally aren't reviewed; rate increases require notice to customers and Corporation Commission.	
WA	Rates flexibly regulated		CLECs must register with state and attest to their competence to serve; affidavits presumed truthful.	Yes (price lists)	Ten days, except for promotional introductory services, or promotional rate reductions for existing services, which take effect the later of the date filed or the effective date.	All changes receive regulatory staff review but normally aren't questioned.	Notice period is pursuant to WAC 480-80-05
WV	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	14 days	All changes receive regulatory staff review but normally aren't questioned.	
WI	Rates not reviewed	Yes	Registration with PSC	Showings, tariffs and price lists not required.	30 days	Changes normally aren't reviewed.	
WY	Rates not reviewed	Yes	Yes (technical, financial and managerial competence)	Yes	One day	Changes are not normally reviewed. Rate changes of fully facilities-based CLECs could be subject to regulatory staff review, but such carriers currently aren't operating in Wyoming.	

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 5
STATES WITH COMPANIES UNDER REGIMES DIFFERENT FROM PRICE CAPS
(AS OF SEPTEMBER 2005)

State	Regulatory Plan
Alaska	Streamlined ROR (large and small incumbents)
Arizona	ROR with price caps (Qwest) / ROR (other incumbents)
Arkansas	ROR (Century Tel)
California	ROR (other incumbents)
Colorado	ROR (other incumbents)
Connecticut	ROR (other incumbents)
Florida	ROR (Only one small incumbent)
Georgia	ROR (nine small incumbents)
Hawaii	ROR (Hawaiian Telcom)
Idaho	Service deregulation for retail serv. above five lines (Qwest); ROR (other incumbents)
Illinois	ROR (Other incumbents - Verizon)
Indiana	Pricing flexibility (investor-owned incumbents with fewer than 30,000 lines); deregulation (telephone cooperatives)
Iowa	Deregulation (other incumbents)
Kansas	ROR (other incumbents)
Kentucky	ROR (Kentucky Alltel, other incumbents)
Maine	ROR (other incumbents)
Maryland	ROR (only other incumbent telco)
Massachusetts	ROR (other incumbents).
Michigan	Rate freeze for local services (other incumbents). Since 2002, 22 incumbent companies have been allowed to break the freeze and adjust their rates so that they could respond to customer demands for expanded calling areas.
Minnesota	ROR (Citizens Telecom); Pricing flexibility (other incumbents with fewer than 50,000 lines).
Mississippi	ROR (other incumbents)
Missouri	ROR (Investor-owned incumbents)
Montana	ROR (All, except rural telephone cooperatives, which are not subject to regulation)
Nebraska	Deregulation (All)
Nevada	ROR (other incumbents)
New Hampshire	ROR (All)
New Jersey	ROR (other incumbents)
New Mexico	Rates not reviewed (other incumbents with fewer than 50,000 lines)
New York	ROR (Frontier Telephone of Rochester and other incumbents)
North Carolina	ROR (Eight smaller other incumbents)

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 5
STATES WITH COMPANIES UNDER REGIMES DIFFERENT FROM PRICE CAPS
(AS OF SEPTEMBER 2005) - Continued

State	Regulatory Plan
North Dakota	ROR (North Dakota Telephone); rates not reviewed (retail rates of investor-owned incumbents with fewer than 8,000 lines and of all cooperatives regardless of size)
Ohio	ROR (36 other incumbents with fewer than 75,000 lines)
Oklahoma	Streamlined ROR (Valor Telecom and incumbents with fewer than 75,000 lines)
Oregon	ROR (Verizon, Sprint, Century Tel); rates and earnings not reviewed (other incumbents)
South Carolina	ROR (other incumbents)
South Dakota	Rates not reviewed (Qwest and other incumbents)
Tennessee	ROR (other incumbents)
Utah	Streamlined ROR (all other incumbents with fewer than 30,000 lines)
Vermont	Streamlined ROR (other incumbents)
Virginia	Rate deregulation (other incumbents)
Washington	ROR (All)
West Virginia	Incentive regulation (Verizon, Frontier Communications); ROR (other incumbents)
Wisconsin	Streamlined ROR with some pricing flexibility (42 other incumbents); traditional ROR (two other incumbents); not rate regulated (12 telephone cooperatives).
Wyoming	Rates not reviewed (All incumbents)
TOTAL	44 states have companies under regimes different from price caps

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 6
DISTRIBUTION OF STATES BY TYPE OF RETAIL RATE REGULATORY REGIME
(AS OF SEPTEMBER 2005)

Regulatory Regime	Price Caps (all incumbents)	ROR (all incumbents)	Deregulation (all incumbents)	Price Caps for Large Incumbents and ROR (other incumbents)		Price Caps for Large Incumbents and Deregulation (other incumbents)		Incumbents and Mix of Other Incumbents		Price Caps for Large Incumbents and Mix of Other Incumbents		Large and Other Incumbents		Mix of Regimes for Large and Other Incumbents	
				NE (Q and others), SD (Q and others), AK (large and small incumbents), HI (Hawaiian Telcom), LA (BLS and others), MTT (Q and others), PA (VZ PA, VZ North, Commonwealth Telephone, and others), RI (VZ), TX (SBC, VZ, FON, Valor Telecom, and others)		IN (Caps: Q, Iowa Frontier Communications of Iowa), NM (Caps: Q, Valor Telecom; deregulation: other incumbents with fewer than 50,000 lines), VA (Caps: VZ VA, VZ South, Sprint Telcos)		AR (Caps: SBC, AT&T, others, and ROR: CTL), AZ (Caps: Q and ROR: others); ID (Price caps and deregulation: Q, and ROR: others); MN (Caps: Q: FON, other telcos), MN: ROR; CZN (formerly GTE, and flexibility: others); NY (Tariff regulation: VZ, ROR; Frontier Telephone of Rochester and others), ND (Caps: Q; ROR: ND Telephone, and deregulation: retail rates of investor-owned companies with less than 8,000 lines and of all coop.), OR (Caps: Q; ROR; VZ, FON, CTL, and deregulation: others), WV (Incentive regulation; VZ, Frontier/CZN, and ROR: others)		AL, AK, AZ, CA, CO, FL, GA, HI, IL, IN, IA, KY, LA, MD, MI, MN, MS, MO, NM, NY, OH, OK, PA, UT, VT, WA, WV	Rate flexibility	Some rates regulated	Rate	Some rates	Large and Other Incumbents
States															
TOTAL	7	5	3			19	3	6	3	6	8	27	3	21	

Sources: State Telephone Regulation Report, August-September, 2005, Vol. 23 (17, 18 and 19) and
 State Regulatory Commissions.

AT=Alltel
 BLs=BellSouth
 CBT=Cincinnati Bell
 CTL=Century Telecom
 CZN=Citizens Communications/Frontier

FON=Sprint
 Q=Qwest
 SBC=Southwestern Bell
 VZ=Verizon

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REPORT TO THE COMMITTEE ON TELECOMMUNICATIONS
NARUC SUMMER COMMITTEE MEETING
SESSION ON "STATE RETAIL REGULATION: A REVIEW OF
WHERE WE'RE AT AND WHERE WE'RE HEADING"
AUGUST 2
SAN FRANCISCO, CA

UPDATE OF CHANGES IN
STATE RETAIL RATE REGULATION OF LECs
OCTOBER 2005 – JULY 15, 2006

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July 2006

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SUMMARY

This short report summarizes some of the changes that occurred in state retail rate regulation of local exchange carriers (LECs) since our last report, which includes data as of September 2005. States have been very active in the area of rate regulation during the last ten months, approving new state laws, regulatory plans for one or more of their LECs, as well as approving petitions for rate deregulation of basic residential and business services, as well as non-basic services in competitive areas.

Since September of 2005, five states (IN, KS, KY, MI and MS) have adopted laws deregulating rates for retail services; New Hampshire's legislature passed a similar bill and Oregon's PUC is working on a straw proposal for telecom rate deregulation. In contrast, Florida is revising a deregulation law passed in 2003 to limit some of its provisions for local basic service rates. The new rate regulation plans adopted in seven states (AZ, NJ, NM, NY, NC, OH and VT) show some common trends: Increased pricing flexibility; provisions allowing carriers to rise rates for stand-alone single-line basic residential services; rate deregulation of retail bundled services; as well as, the development of opt-in plans for small carriers, currently under rate-of-return (ROR) regulation, that allow them to shift to alternative forms of regulation, mostly price cap regulation.

Finally, eight states (GA, IL, IA, MO, RI, TN, TX, and WI) have approved rate deregulation of services for different carriers during this period. Of them, five states deregulated basic residential and/or business services in markets deemed competitive. Competition, for the most part, is defined as the existence of at least one facilities-based competitor and another carrier competing with the incumbent. Texas has adopted more stringent criteria for rate deregulating its smallest markets (less than 30,000) by requiring that at least three competitors serve the same market as the incumbent. The Bells and Sprint keep obtaining approval for rate deregulation in the largest urban areas. Rhode Island is an interesting case, as its PUC has approved rate deregulation of Verizon's residential basic service across the state, based on the level of competition faced by the incumbent. These trends will continue in the near future, as evidenced by the list of pending bills, regulatory plans, and petitions for deregulation.

The information included in this report was obtained from news clips published in *State Telephone Regulation Report*.

NEW STATE LAWS PASSED

IN (HEA-1279, March 28 2006): Phases-out retail telephone rate regulation by June 30 2009. During the transition period (March 2006-June 2009), carriers may raise the flat monthly rate for basic local service up to \$1 annually, not to exceed \$3 for the whole transition period. Carriers must offer the option of flat-rate unlimited local calling service. Non-basic services rates were deregulated instantly. VoIP, broadband, wireless and information services are outside URC's jurisdiction. Carriers will have to offer broadband services to at least 50 percent of subscribers within 18 months of their first basic-service rate increase.

KS (SB-350): The law deregulates retail rates for bundled telecom services statewide and all stand-alone services, other than basic exchange service, to customers under five lines. Markets with more than 75,000 inhabitants are presumed competitive and were deregulated immediately. Rates for deregulated services can be set at any point above a cost floor. The law allows deregulation in smaller markets based on a competition test (at least two carriers competing against the incumbent: one facilities-based carrier and another type of carrier; resellers and prepaid service providers are not considered). Re-regulation is permitted if fewer than two carriers compete against the ILEC, or due to a carrier's failure to correct service quality violations. The Commission is required to submit a report to the state legislature every three years studying the impact of deregulation on local rates and the potential need to change the deregulation law.

KY (HB-337): Proposes an opt-in alternative regulation program for ILECs. The law deregulates rates for all but basic single-line local service by July 12. Large ILECs opting in would have rates for basic exchange frozen for five years at level equal to rates current at time of election; afterwards, the law allows annual rate changes equal to national Consumer Price Index (CPI), subject to PSC approval. Basic exchange rates for small ILECs (under 50,000 lines) are frozen for 12 months at the rate level current at the time of election and then can increase based on the CPI. All other retail non-basic service rates are deregulated. BS is currently under this program; the other 18 ILECs have the alternative to opt-in.

MI (HB-5327; into effect since April 1, 2006): The new Michigan Telecommunication Act deregulates rates for all retail telecom services other than residential dial tone with a 100-call monthly allowance. The basic exchange rate is frozen for five years. The reasonableness of the starting rates for regulated single-line basic exchange service that would apply for the next five years is being disputed by the state's Attorney General Michael Cox (R).

MS (HB-1252): This law deregulates rates for most stand-alone retail telecom services and all retail service bundles. Single-line stand-alone flat-rate local exchange service and intrastate switched access service remain rate regulated. The law requires carriers to provide service to any customer as long as the cost of extending the service is under \$5,000.

Pending bills

FL (SB-142): The state legislature has passed a bill that would repeal parts of a 2003 state deregulation law. The bill shifts the approved 20 percent annual raise on local basic service to increases limited to a cap of CPI-1 percent. The bill also deletes a provision allowing LECs to classify noncompetitive services as competitive, now requiring LECs to justify such reclassification before the PSC.

NH (HB-1756): The bill was passed by the state legislature. If signed, it would allow PUC to re-impose ROR on small ILECs or revise the price control program applied to these carriers if competition dwindles or due to a carrier's failure to comply with Universal Service or intercarrier service obligations. Starting rate for basic exchange service provided by small carriers would be capped at Verizon's level. Rate increases capped at 10 percent annually for cost increases with uncontrollable external causes (tax increases or government mandates).

OR: The PUC's "straw proposal" for telecom rate deregulation was sent for study to the Telecom Deregulation Task Force, a force ordered by the 2005 legislature. The proposal freezes stand-alone residential basic exchange rates; retains rate regulation of directory assistance, other operator services, EAS, and intrastate access charges, and deregulates bundled services, residential vertical services and other optional or discretionary residential services. The next meeting of the Task Force is scheduled for July 25th.

NEW RETAIL RATE REGULATION PLANS FOR ONE OR MORE LECS

AZ – Qwest: Approval of pricing flexibility regime that will provide Qwest a net \$43.8 million revenue increase over two years to correct a detected revenue deficiency. The plan extends price cap rules through 2007. Rates for basic exchange service, 911 and in-state directory assistance are capped at current levels. Qwest is allowed to raise rates for vertical services and other services classed as semi-competitive up to 25 percent. Fully competitive services would be priced to market. In exchange, Qwest is to cut intrastate access charges by \$12 million the first year and withdraw a proposal to declare major cities as competitive zones, which would then be deregulated.

NJ – United Telephone: Sprint, the Office of Ratepayer Advocate and the staff of the Board of Public Utilities (BPU) reached an agreement on the spin-off of the operation of Sprint's wireline local exchange in the state, required under the terms of its merger with Nextel. United's local rates will be frozen at current levels until 2008. Services classed as rate-regulated cannot be moved into the deregulated competitive category for the next 18 months. The company will also expand broadband availability, establish discounted rates for schools and libraries and expand eligibility criteria for Lifeline.

NM – Valor Telecom: Following a 2004 New Mexico's law mandate to establish a more liberal regulatory system for midsize ILECs (50,000-375,000 lines), the PRC revised Valor's regulatory regime in 2005. Valor is the only incumbent currently covered by this law, but its regulatory plan will apply to any other midsized local provider entering the

state through 2010. As of April 1, 2006, the new five-year plan deregulates rates for retail service bundles, except that they must be priced above cost. Stand-alone basic service rates could be set anywhere between current rates and a cost floor. Non-basic services can rise five percent per year, while vertical services are allowed to rise 20 to 50 percent annually, depending on the service. The PRC will revisit the rules in 2007 for necessary adjustments. (Case 05-00282-UT).

NY – Verizon, Frontier Telecom, and other incumbents: A new PSC policy allows Verizon to raise monthly unlimited basic local rates up to \$2 a year to a statewide cap of \$23. The dial-tone portion of measured local service can be increased by the same amount the first two years. Frontier can increase its flat and measured rates \$2 a year for two years; afterwards increases to basic rates must have PSC approval. Other incumbents must justify any increase to basic local rates by showing evidence of cost rises or the existence of competition. VZ and Frontier's rates for vertical services and other non-basic services are deregulated, with the requirement to maintain a uniform charge for rate deregulated services across their service territories. Other incumbents may obtain pricing flexibility for non-basic services by showing evidence of sufficient competition. (Case 05-C-0616).

NC – Alltel: Tentative approval by the Utilities Commission of a new price cap plan, similar to those of BS, VZ and Sprint. The plan will allow annual rate increases for basic service of up to ten percent, subject to a revenue cap for the basic basket equal to 1.5 times the annual inflation rate as measured by the GDP-PI. Vertical and non-basic services are allowed to rise up to 20 percent subject to a basket revenue cap equal to 2.5 times the annual GDP-PI. Competitive services are rate deregulated. (Case P-118, Sub 86).

OH – Other incumbents: PUC adopted a relaxed regulatory framework for small incumbents (under 50,000) in the state as an alternative to ROR regulation. For-profit small ILECs lines that opt into the plan would have to freeze their basic local rates indefinitely, as well as their vertical rates for the first two years. Other services are flexibly priced. Small incumbents have advanced service requirements that can be fulfilled through an affiliate company; carriers are also required to develop a Lifeline outreach program in collaboration with PUC staff. Not-for-profit small incumbents, including cooperatives, are allowed to change rates for any service n 30 days notice to customers, without PUC review. These carriers only have to fulfill their federal Lifeline obligations. (Case 05-1304-TP-COI).

ILECs facing competition in basic local services: Based on a 2005 law, PUC adopted new price cap rules for ILECs facing local competition. These rules allow raises or cuts to basic exchange rates up to \$1.5 monthly, substituting a previous cap that froze basic service rates. Competition is defined as the existence of competitors having at least a 20 percent market share systemwide or a 25 percent share in competitive exchanges. Carriers can also qualify for the new pricing flexibility regime by showing a 15 percent line loss to at least two different local competitors or evidence of five or more local providers servicing customers in its markets.

Verizon and Champaign Telephone: Companies were allowed to switch from ROR regulation to an alternate price cap framework. The plan freezes basic exchange and caller ID rates. It also limits increases for certain vertical and specialty business services for 24 months. After this period, rates can rise to an absolute cap set at double the current rates. Most other retail rates are deregulated. The plan requires VZ to extend broadband services to specific unserved areas and expand Lifeline eligibility.

VT – Verizon: The Public Service Board approved an amendment to the carrier's price regulation plan replacing an annual \$40 million infrastructure investment requirement with a mandate to make broadband service available to 80 percent of its access lines by 2010. Verizon currently has broadband services available in 56 percent of its lines. To reach the required 80 percent, Verizon will have to upgrade about 80,000 lines in four years, using either landline or wireless technologies.

Plans in process

NH – Verizon: The PUC set a hearing on October 10 on a new price-based regulation plan for Verizon that would move the carrier out of ROR regulation. The proposed plan would cap residential basic rates at current levels and deregulate rates for other retail services. The plan has been opposed by the state Office of Consumer Advocate. (Case DT 06-072).

NM – Qwest: The PRC ordered in March 2006 an interim extension of the carrier's price cap regulation until a new plan could be negotiated. The delay in considering Qwest's new plan was due to litigation on Qwest's 2001 plan's investment requirements. The extension continues the 2001 plan without change. The PSC set a schedule for consideration of the proposed plan, to take effect before October 2006. The plan as proposed by Qwest would keep rates for stand-alone basic residential and business services at current levels and give Qwest price flexibility to adjust rates for bundled services.

Deregulation of Services for One or More LECS

GA – BellSouth: BellSouth's agreed with PSC to detariff the carrier's new, bundled and contracted retail services, as well as some existing optional and discretionary services, due to the existence of equivalent alternatives. PSC retains authority to resolve complaints on detariffed services and may impose penalties in case of violations to service contracts. (Case 20729-U).

IL – AT&T: The state Supreme Court reinstated a 2001 state law deregulating rates for all business telecom services for the company. (Case 99380).

IA – Frontier Communications, IA Telecom and Qwest: Approval of retail rate deregulation of single-line residential and business services in four of Qwest's exchanges, 14 exchanges of Iowa Telecom and two Frontier exchanges, based on evidence of effective wireline competition. (Case NU-05-2).

MO – AT&T and Sprint: The PSC approved the deregulation of 26 residential and 45 business markets served by AT&T as a result of existing competition. Deregulation of other 19 exchanges was denied due to failure to meet competitive criteria or to late additions to the petition. A 2005 law defined a competitive market as that with at least one facilities-based wireline CLEC and one wireless competitor providing local service. As part of this case, the PSC also rate deregulated five of Sprint's exchanges in the state. (Case IO-2006-0092).

A second case seeks rate deregulation in an additional 49 residential and 26 business exchanges served by AT&T under an alternative 60-day process for markets with competition, but where there is no facilities-based CLEC providing service. The two petitions would deregulate approximately two thirds of AT&T's exchanges in the state. Final decision on the second petition is scheduled for October. (Case IO-2006-0102)

RI – Verizon: The PUC approved Verizon's petition for statewide rate deregulation of residential basic service based on evidence of about 35 percent of residential lines served by competitors. Retail rates for optional, discretionary, and basic business services had previously been deregulated. PUC also granted a request for Verizon to cut its Lifeline subsidy by \$2 monthly, to bring it in line with its competitors' level. Verizon is still required to file annual earning reports and monthly service quality reports.

TN – BellSouth, Citizens Telecom: All retail toll and high speed digital services for businesses were approved for deregulation. (Case 03-00391).

TX – AT&T, Verizon and Sprint: Following a 2005 law mandate to rate deregulate by Dec. 31 2005 markets with 30,000-100,000 population if there were at least three local competitors, the PUC approved retail rate deregulation in 14 midsized local markets served by AT&T, three Verizon markets and one Sprint market. Markets that did not fulfill the competition requirements will remain rate regulated. (Case 31831). The same law requires the PUC to determine which markets with population under 30,000 must remain under rate regulation by November 2006 (Case 32169). All markets over 100,000 lines were rate deregulated by law.

In June 2006 the PUC adopted a new set of rules for determining the markets with populations of less than 30,000 that should remain rate regulated. Under the revised §65.002 of the Public Utility Regulatory Act (PURPA), rate deregulation occurs only if the ILEC demonstrates that the population in the market is less than 30,000 and that it faces competition from three separate carriers, of which at least one must be a facilities-based competitor and at least two competitors must be from two different categories of the following: (A) a certified provider of residential local exchange telephone service in the market; (B) a CMRS provider in that market that is not affiliated with the ILEC; and (C) a satellite telecommunications provider certified as an eligible telecommunications carrier for the entire market. CRTC's under Section 251 (f)(1) rural exemption may petition the PUC for a waiver of such exemption, so that the market in question may be rate deregulated. Markets shall be deregulated on January 1, 2007 only if the ILEC providing service to such a market(s) submits evidence on or before August 1, 2006.

WI – AT&T (SBC): The PSC granted SBC rate deregulation of basic residential service in the state's 17 largest cities and suburbs, covering about 75 percent of its residential customers. Annual increases in residential basic exchange rates are limited to \$2.50 monthly in the first two years. Starting in 2008, AT&T will be able to price this service at market rates. Deregulation lifted an \$8.20 monthly residential price cap for about 300,000 residential urban and suburban customers in Milwaukee, Green Bay, Madison and other large cities. The cap remains in effect for another 120,000 customers in rural areas. Rates for business service, toll and most optional or discretionary services were previously deregulated. (Case 6720-TI-196).

Petitions for service deregulation

IL – AT&T: Petitioned to deregulate retail rates for residential voice service in the Chicago area due to existence of effective competition. (Case 06-0027). This service is currently under indexed price caps. AT&T and Illinois' Citizens' Utility Board reached an agreement in May, but the petition still requires approval by the state's Commerce Commission.

MO - Embarq: The PUC is scheduled to decide on a petition by Embarq (Sprint's former local exchange operations in the state) for rate deregulation of all retail residential services, except basic exchange in seven communities, due to growing competition from wireline and wireless providers. It is also seeking rate deregulation of all business services in Lebanon due to competition.

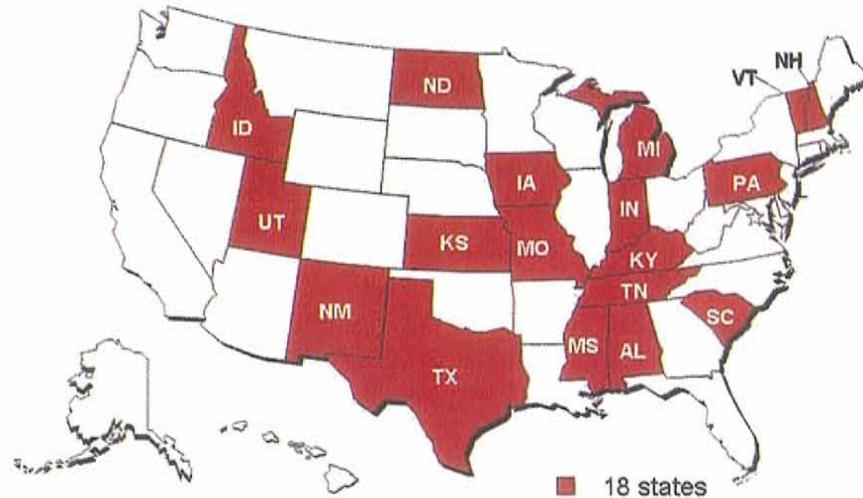
MT – Qwest: Petitioned to deregulate optional vertical services, additional-listing services and bundled packages for residential and business customers, based on existing level of competition. Hearings start Oct. 4, 2006. (Case D-2006-3-39).

OTHER CHANGES

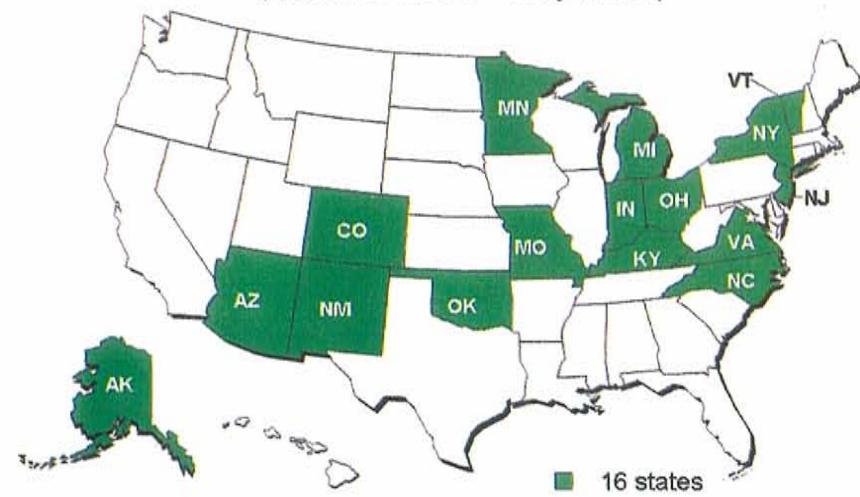
NM – Qwest: The NM Supreme Court ruled that the Public Regulation Commission has the authority to force a \$220 million refund by Qwest that the carrier failed to invest in its network as required in its 2001 regulatory plan. The PRC will give Qwest the opportunity to propose alternatives to the refund, such as a new investment plan.



Adoption of new state laws affecting retail rate regulation (October 2004 – July 2006)



Adoption of new retail rate regulation plans for one or more LECs (October 2004 – July 2006)



nrri Retail rate deregulation of service(s)
provided by one or more LECs
(October 2004 – July 2006)

